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# FOREIGN INDUSTRIAL TARGETING POLICIES

## HEARING

BEFORE THE

SUBCOMMITTEE ON ECONOMIC GOALS AND INTERGOVERNMENTAL POLICY

OF THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

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# FOREIGN INDUSTRIAL TARGETING POLICIES

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**MONDAY, JULY 25, 1983**

Congress of the United States,
Subcommittee on Economic Goals
and Intergovernmental Policy
of the Joint Economic Committee,
*Washington, D.C.*

The subcommittee met, pursuant to notice, at 10 a.m., in room SD-138, Dirksen Senate Office Building, Hon. Lloyd Bentsen (vice chairman of the subcommittee) presiding.

Present: Senator Bentsen.

Also present: George R. Tyler, Sandra Masur, and Ruth Kurtz, professional staff members.

## OPENING STATEMENT OF SENATOR BENTSEN, VICE CHAIRMAN

Senator Bentsen. This hearing will come to order.

Mr. Ambassador, we are very pleased to have you here this morning. We are going into what, in effect, is an unchartered area. It is one where we are looking at targeted industries to try to determine the appropriateness of our laws to react to them. Targeting is really a new name for an old Government practice—providing special help to a special industry or a firm in order to boost employment, earn foreign exchange, aid national defense, or to achieve some other public goal.

Industrial targeting exists in every nation. Yet, there is enormous variation in the form that it takes and in the degree to which favored firms receive government protection or subsidies—such help as diverse as overt trade controls, export subsidies, outright cash grants for new plants and equipment, R&D subsidies, and cheap prices for government-controlled raw materials.

The worldwide scramble to industrialize since World War II featured a virtual revolution abroad in the role traditionally played by governments in the economic process.

I think a good example of that today is governments guaranteeing virtual giveaway prices for raw materials used by domestic companies who export—you are seeing that now in the Middle East in the way of natural gas and oil provided as feedstocks to their petrochemical industry.

I can understand the objectives of those countries in trying to go downstream in the manufacturing process. But when you look at the disparity in the price of these raw materials as guaranteed by the government relative to prices paid by competitors elsewhere, you run into some great inequities in the world marketplace. Even in the most market-oriented governments today, you have seen them increasingly involved directly in the planning and the nurturing of basic and high-tech industries. The result has been an unprecedented assault on free trade principles. In this Nation it has resulted in U.S. factory workers and farmers forced to compete one-on-one against, not other companies or other farmers, but against nations themselves.

These foreign industrial targeting policies have become deeply embedded in the political and economic landscape abroad. They have become institutionalized. Even our own State Department cables indicate that they have become a permanent feature of the international economic fabric. Indeed, the Department of Commerce has even gone so far in a recent report to chart a few of the specific high-tech industries which are currently being targeted with special incentives by Japan, France, and West Germany. That is the chart which we were looking at a moment ago, Mr. Ambassador.

These policies distort risk premiums, prices, profits, employment patterns, and investment flows. And a feature common to all of them is a furious effort to boost exports, a sophisticated new version of the 18th century mercantile notion of willy-nilly maximizing exports and the jobs and the income that they generate, regardless of the consequences abroad.

As a result, it is governments and not underlying market forces which increasingly determine trade patterns. The United States does subsidize some industries and does encourage exports. That is a part of the problem that you face in your trade negotiations, Mr. Brock. But our efforts in the industrial area pale in comparison to elaborate programs abroad. In fact, many argue that we are the only Nation playing by the rules of free trade, that we are losing markets and jobs to favored firms abroad who play by a different set of rules.

That kind of a tilt against U.S. firms has created an unprecedented attack on free trade. Foreign industrial targeting is making free trade a one-way street to the poorhouse for a lot of U.S. firms and their employees.

This hearing has one overriding objective—to explore ways that we can move what is an increasingly protectionist world back toward free trade. The fundamental barrier to free trade today is the antiquated system of international laws used to enforce trade practices. They are pretty creaky, loaded with footnotes and loopholes, and virtually ignore the role which foreign governments play in today's international trading system.

Those rules are often poorly enforced, as well. They are no more useful in policing our international trade system, featuring foreign industrial targeting than the horse and carriage in our supersonic age.

The rules of international trade have to be modernized and they have to be updated, and updated quickly to head off the surge of protectionism that is moving around the world. And that is where we are really looking for your advice and your counsel, Mr. Brock. You are going to be our first witness and will be reviewing the administration's position on industrial targeting abroad.

You will be followed by Robert Galvin, chairman of Motorola, Inc., who is here representing the Coalition for International Trade Equity, and by Howard Samuel, president of the AFL–CIO's Industrial Union Department, representing the Labor-Industry Coalition for International Trade. They will discuss foreign industrial targeting, its impact here, and hopefully, offer suggestions on how to insure that the rules of international trade can become more effective and balanced.

Before proceeding, I will insert the chart I mentioned in my opening statement in the hearing record at this point.

[The chart follows:]

*Targeted Industries*

| Industry | Japan | France | West Germany |
|---|---|---|---|
| Computers | X | X | X |
| Microelectronics | X | X | X |
| Electronic Instruments | X | | |
| Lasers | X | | |
| Optical Communication | X | | |
| Electronic Office Equipment | | X | X |
| Biotechnology | X | X | |
| Robots | X | X | |
| Energy Conservation Equip. | | X | |
| Underwater Exploration Equip. | | X | |
| Aerospace | X | X | |
| Telecommunications | X | X | |

Senator **Bentsen**. Mr. Brock, we certainly welcome you here this morning. We appreciate your arranging your schedule to be with us.

## STATEMENT OF HON. WILLIAM E. BROCK, U.S. TRADE REPRESENTATIVE

Mr. **Brock**. Thank you, Mr. Vice Chairman. That was a particularly thoughtful opening statement and I appreciate it very much. And I find almost nothing with which to disagree.

I am not sure that we have any good answers, so it probably will not surprise you that the gist of my comments today will be to urge caution. As serious as the problem is, I want to be very sure that what we do is the right thing and that we do not create new problems in the process of seeking a solution.

I do want to express my gratitude for the opportunity to talk about how we, as a Government, might respond to foreign industrial policies and the targeting of industries. I have submitted a prepared statement for the record. As much as I dislike having to read statements, I am going to try to summarize this as quickly as I can.

The impact of foreign industrial policies and targeting practices on U.S. industries has been the subject of considerable debate with a high degree of controversy typically being associated with any discussion of the issue. We must acknowledge that problems can arise for U.S. industries when foreign governments channel support to selected industries. However, in framing responses, discretion is needed in distinguishing among those problems that are created by foreign industrial policies and targeting practices, those that are of our own making, and those that are a function of differences in countries' systems.

In responding to the specific request of the vice chairman for information on foreign targeting practices, I would first like to put targeting into perspective. Targeting generally refers to and is used here to refer to microeconomic policies which are industry and, in some cases, product-specific. Used in this way, targeting is one dimension of industrial policy which refers to macroeconomic policies as well.

For our analytical purposes, we have used the following as at least one possible set of indices of the problem:

Targeting is a governmental or officially sanctioned policy or plan that systematically seeks to enhance the competitiveness of a particular industry or industries relative to other industries in the domestic and/or export market. Targeting practices may, among other things, reduce risk, decrease domestic competition, increase available capital, or increase the market size in order to create for the target industry a greater comparative advantage than the industry would have, absent government intervention.

Apart from a purely protectionist approach, there are many measures that governments have adopted to enhance the comparative advantage of certain industries. Targeting measures differ from country to country and from sector to sector with other countries. Some relate to the provision of capital, some to fostering research and development, and some to administrative policies. Typically, these measures are used in some combination.

Mr. Vice Chairman, in my prepared statement I have focused on two industries that have been targeted by foreign governments for support—the large jet transport industry and semiconductors. These cases illustrate the type of target support provided by governments to selected industries and how we are responding to these practices. I would point out that these two examples are not necessarily representative of the degree or the type of government intervention witnessed in other industries and that we currently have under study to a more detailed degree the extent to which targeting practices in these and other sectors have affected U.S. industries.

I would like to focus the remainder of these remarks on the administration's response to foreign industrial policy and foreign targeting practice. I would stress that our response has been, and will continue to be, guided by the principal objective of U.S. trade policy; namely, to insure that American firms can compete in a fair and open international trading system, as you, yourself, have stated.

If targeting and industrial policies violate international obligations embodied in the GATT, or our domestic laws, the option to responding to infractions are relatively clearcut. However, gray areas exist and it is in these gray areas that the appropriate response, if any, is difficult to find. Rather than reacting to foreign governments' prescriptions for economic success that are based in large part on the characteristics of their respective economies and resource bases, we are, in this administration, attempting to pursue policies that will encourage industrial development based upon the strengths of our economic system.

This involves both providing the foundation for economic growth and developing and enforcing international rules of the game. Further, we are analyzing on a sectoral basis foreign targeting practices and their impact on the competitiveness of U.S. industries in order that we can best address the potential distortions to trade costs by these practices.

The role of our Government is to support a sound fiscal and monetary policy that encourages sustained, noninflationary growth and to facilitate investment in our economy. In this regard, the President's program has been successful, both in reducing inflation and interest rates. This will encourage investment and in conjunction with the production of high quality and competitive products, will help U.S. industries to position themselves for greater sales in the domestic and international markets.

However, we need to do more than just pursue sound macroeconomic policies if we are to strengthen our ability to compete. We must reexamine policies which affect U.S. industrial competitiveness in the domestic and export markets. This reorganization—or excuse me—this reexamination—a Freudian slip on that one. [Laughter.]

This reexamination is underway in the areas of antitrust, regulatory reform, export disincentives, research and development, and education and training with a view toward removing self-imposed barriers to trade.

But unilateral actions are not enough to insure us a leadership position in the world economy. We simply cannot be oblivious to actions taken by other governments that affect our economic competitiveness. We must continue to effectively enforce our rights under both international and domestic law and continue to adapt the rules of the game to changing economic circumstances.

We are aggressively carrying out these responsibilities.

Finally, we are devoting considerable energy to addressing the issue which has prompted the hearing today—targeting. We are presently engaged in a dialog with the Japanese on industry-related policies in order to better understand Japanese practices that impact trade. We have had two sets of meetings with the Japanese on these issues and believe the information we are gathering will enable us to better address the potential problems associated with industrial policies. It may also provide us with some creative ideas on how best to facilitate a favorable economic climate for our own industry. In order to determine whether current law is adequate to address the foreign targeting issue, an interagency working group under the auspices of our Trade Policy Committee is involved in a work program that includes identifying and categorizing foreign targeting practices and U.S. Government practices that support industry. Further, we are developing case studies to analyze the effect of foreign trading practices on selected U.S. industries, including steel, large jet transports, telecommunications, computers, and ceramics, and reviewing the appropriateness of current tools to address these practices.

We will be pleased to share with you the results of this effort.

Mr. Vice Chairman, our ability to compete in, rather than retreat from, the global market hinges, in large part, upon our success in providing the foundation for economic growth, effectively enforcing our rights under international and domestic law and insuring, on a sectoral basis, that U.S. industries are not unfairly undermined by foreign targeting practices.

The dynamic nature of the world economy means that our ability to achieve these objectives will often be challenged. I believe that we are adopting policies that will enable us to meet these challenges.

Thank you.

[The prepared statement of Mr. Brock, together with a status report on section 301 petitions, follows:]

## PREPARED STATEMENT OF HON. WILLIAM E. BROCK

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here this morning to discuss with you how we, as a government, should address the issue of foreign industrial policy and the targeting of industries.

### OVERVIEW

Definitions of and prescriptions for industrial policy and targeting are as numerous as the spokespersons from business, government, labor, and academia who have espoused their views on this subject. A high degree of controversy typically pervades any discussion of the issue.

The impact of foreign industrial and targeting policies on U.S. industry is subject to disagreement. We must acknowledge that problems can arise for U.S. industry when foreign government policies channel support to selected industries. However, we must also emphasize that discretion is needed in distinguishing among those problems which are created by foreign industrial policy and targeting practices, those which are of our own making, and those which are a function of differences in countries' systems.

## DISCUSSION OF TARGETING PRACTICES

In responding to the specific request of the Chairman for information on foreign targeting practices, it is useful to put targeting in perspective. "Targeting" generally refers to, and is used here to refer to, microeconomic policies which are industry, and in some cases, product-specific. Used in this way, targeting is one dimension of industrial policy, which refers to macroeconomic policies as well. For our analytical purposes, we have used the following as at least one possible set of indices of the problem:

> Targeting is a governmental or officially sanctioned policy or plan that systematically seeks to enhance the competitiveness of a particular industry or industries, relative to other industries in the domestic and/or export market. Targeting practices may, among other things, reduce risk, decrease domestic competition, increase available capital, or increase the market size in order to create for the target industry a greater comparative advantage than the industry would have without government intervention.

Apart from a protectionist approach, there are many measures that governments have adopted to enhance the comparative advantage of specific industries. Targeting measures differ from country to country and from sector to sector within a country. Some relate to the provision of capital, some to fostering R&D, and some to administrative policies. Typically these measures are used in some combination.

## OPTIONS TO ADDRESS FOREIGN TARGETING PRACTICES

Mr. Chairman, if targeting and industrial policies violate international obligations embodied in the General Agreement on Tariffs and Trade (GATT) or domestic rules, the option for responding to infractions is relatively clear cut. However, grey areas exist and it is in these grey areas, that the appropriate response, if any, is difficult to find. Here we frequently cannot distinguish between the effects of targeting and comparative advantage.

In developing a response to the foreign industrial policy and targeting, there exist a range of options that are available. The extremes of these options and the U.S. policy response are discussed below.

I would categorize the first as the emulative approach. This approach implies direct government involvement in the selection of industries that would be targeted for both development and rationalization. The government, through the adoption of certain sector-specific policies, including financial and other types of incentives, would attempt to facilitate the evolution of new industries and to compensate those sectors which bear a disproportionate share of the adjustment burden. Those advocating the emulative approach almost always turn to the Japanese model as a clear example of the success of this approach.

The rationale for the emulative approach is that U.S. industries cannot compete against foreign firms backed by the resources of sovereign governments. Government intervention in the marketplace would become the prescription for the continued competitiveness of the industrial base.

I do not believe we are willing, as a nation, nor should we be willing to abandon the fundamental economic principles which have provided the foundation for our economic strength. Emulation of foreign governments' policies would represent an underestimation of the strengths of our system and an overestimation of foreign successes. Industrial policy does not work consistently. A Government cannot always pick winners. A sector specific industrial policy frequently results in a misallocation of economic resources, reducing overall economic growth and causing inflation. Further, even the model most often promoted--the Japanese system--has not always been a clear success. A number of Japanese industries that have been the subject of government intervention--including aluminum smelting and petrochemicals--are today in serious economic trouble. A good number of Japanese success stories, including automobiles and motorcycles, cannot be attributed to targeting efforts of the Government.

A second approach would be to close our borders against imports from industries that we have determined to be targeted by foreign governments. This approach is a sure-fire prescription not for economic recovery or growth, but for economic disaster. Only the continued growth of trade holds forth the promise of greater economic growth and a higher standard of living for our nation.

A third approach is a pure laissez-faire approach. Reliance on the market has been the traditional guide for our economic development and is consistent with our basic philosophy of protecting the individual and firms from Government fiat. The rationale behind this approach is that the American individual and firm decisionmakers, continually operating to produce better goods at better prices, will provide the most efficient means of allocating a nation's resources.

Even under a free-market approach, there is a role for public policy. Government is needed to both establish and to enforce rules of the game in order to ensure U.S. firms competitive access to the domestic and international markets. Further, Government is needed to safeguard U.S. firms' interests against unfair trade practices of foreign governments and firms. And it is Government's responsibility to establish a healthy framework for economic growth. All too often in the past, our Government has acted in a fashion that handicapped our industries that compete in the international arena.

Cognizant of the important role to be played by the Government, we are pursuing an approach that falls between these extremes, encouraging the development of our industry through building a firm economic foundation and by keeping the international rules of the game fair.

## CASE STUDIES

Before proceeding in greater detail with the Administration's response to foreign industrial policies and the targeting issue, I would like to address specifically your request for information on foreign targeting practices, by focusing briefly on two industries targeted by foreign governments for development--large jet transports and semiconductors. I should caution that these two examples are not necessarily representative of the degree or type of government intervention witnessed in other industries, and that we currently have under study to a more detailed degree, the extent to which targeting practices in these and other sectors have affected U.S. industries. These cases do illustrate, however, both a number of foreign practices that fall within the definition of targeting and the role of our Government in determining the competitive position of these industries. I would like to outline as well the steps that we have taken and are taking in response to foreign targeting in these sectors.

## Large Jet Transports

The U.S. large jet transport industry competes in an international marketplace characterized by strong government involvement. Foreign government support for the development, production, and marketing of civil aircraft is provided in a number of ways. Some countries maintain governmentally-sponsored research in aeronautics, comparable to that of NASA. The civil programs of foreign companies also receive derivative benefits from military progams, as does the U.S. industry.

Foreign governments aid their companies generally by reducing economic risk. A new transport aircraft and engine program requires an investment on the order of $3 to $4 billion and four to five years development prior to delivery of the first aircraft. U.S. manufacturers must bear not only the technological risk that the program might not be successful, but also the economic risk that there might not be sufficient demand for the new aircraft in the early years of production. Foreign governments also provide development funding, whether through appropriations, loans, or loan guarantees. Government-owned companies have been willing to proceed to production with a smaller order book than private companies would find acceptable. Foreign official support also often entails offering attractive sales financing and other sales inducements.

At present, the challenge to the U.S. jet transport manufacturers does not come from Japan, where the aircraft industry is in its infancy. However, I would note that MITI (Ministry of International Trade and Industry) has selected the civil aerospace sector as one of the key elements in the development of Japan's industrial policy. The MITI Industrial Policy Vision for the 80s includes plans for turning the aircraft industry into, in MITI's words, one of Japan's "target industries of the twenty-first century," and these plans envision that the aircraft industry will be competitive with the European aircraft builders by the year 2010.

To meet this goal, the Government of Japan is encouraging Japanese participation in international joint ventures, organizing domestic production consortia, and providing financial support for the development of civil transports and engines. MITI is providing 65 to 75 percent of the funds required to develop the Japanese components of the Boeing 767, and for the Japanese share of an engine program for a next generation aircraft. In order to gain aerospace production experience, Japan is building F-15 fighters under license for about $20 million more per plane than it would cost to buy the aircraft already built.

While Japan promises to be a formidable competitor, the more immediate challenge to the predominance of the U.S. transport aircraft and engine industry comes from the European aircraft builders which have combined their resources to cooperatively develop their aerospace industries in order to compete effectively with the U.S. industry. Prior to the establishment of a European aircraft consortium, Airbus Industrie, European industry was unable to sustain a program producing competitive aircraft. By pooling resources in development, production, and marketing of jet transport aircraft, however, Airbus has been able in 10 years, to produce a commercially viable aircraft while strengthening sales worldwide. It began deliveries in 1974, at which time total orders numbered 10. By the end of 1982, Airbus had delivered 204 aircraft to 39 airlines.

The Airbus consortium is approximately 70 percent government owned, and it enjoys government support of a sort not available to U.S. private manufacturing firms. The French Government had invested $1 billion through 1980, and an additional $1.2 billion has been budgeted through 1985. The German Government estimates an investment of over $1.1 billion of their own through 1985.

The pattern of government involvement in aircraft organization in Europe and aggressive support behind Airbus marketing programs must not be allowed to unfairly undermine the chances for successful U.S. competitive efforts. The framework for ensuring that U.S. and foreign companies adhere to fair trade rules in the aerospace sector is established in the GATT Agreement on Trade in Civil Aircraft. Within this forum the United States insists that trade be on commercial grounds, independent of political considerations.

To regulate export credit support for sales of large aircraft, a Common Line Agreement was negotiated between the United States and the Airbus governments. This agreement has substantially neutralized financing as a competitive factor in the sale of commercial jet transports, and we are moving toward our goal of eliminating government subsidized sales financing. To improve our ability to realize this objective, we stand prepared to offer official export financing for aircraft sales at rates and on terms generally competitive with those available to Airbus manufacturers.

On the domestic side, I meet periodically with the principal executives of leading U.S. aircraft and engine companies, and my staff maintains an active dialogue with the industry regarding foreign industry developments and means of countering unfair foreign trade restrictions or distortions.

## Semiconductors

In the mid-1970's, when commiting itself to attaining preeminence in the "knowledge intensive" industries--computers, data processing, and communications, among others--the Japanese Government recognized that semiconductor technology provided the basic underpinning for these industries. Accordingly the semiconductor industry was targeted, and government programs supporting the development of the industry were established. A broad network of policy tools were employed including financial assistance, tax incentives, market protection, and industry-government coordination.

The success of the Japanese semiconductor effort can be best demonstrated by examining the specific case of the 64K RAM (random access memory) chip. Market protection, government financial assistance, and identification of this product as priority reduced the costs and risks for Japanese firms of rapid and large scale investment in 64K RAM production capacity. This capacity build-up resulted in aggressive pricing and large losses, which, according to the U.S. semiconductor industry, has caused a number of U.S. companies to cease RAM production, including the 64K. In effect, Japanese companies that once trailed U.S. firms in RAM production and technology are now ahead. Today the Japanese have 70 percent of the world market for the 64K RAM.

Japanese semiconductor successes are not confined only to the 64K RAM. By 1975, Japanese global trade in semiconductors has shifted from a deficit to a surplus. Furthermore, the perennial U.S. semiconductor trade surplus with Japan had turned into a deficit of close to $200 million by 1982.

We are understandably concerned with this situation and are working closely with the U.S. industry to address their primary goal--opening up the Japanese market. In this context, a series of discussions which we have held with the Japanese Government resulted in the establishment of a bilateral working group on high technology trade issues. Mr. Chairman, I am happy to report to you, that in talks that took place in Washington on July 5 through 7, this working group reached agreement to establish a data base of current information on trade in semiconductors. Data will be collected from 27 U.S. companies, and once aggregated will be exchanged with MITI in return for data collected from the Japanese semiconductor manufacturers. The information exchange will begin in September and will continue on a monthly basis. The information collected on trade flows will enable both U.S. Government and industry to respond quickly to problems on the basis of current information.

In response to U.S. industry's desire to remove barriers to U.S. semiconductor sales in Japan and to establish a trade regime as genuinely open as possible, we have taken several actions. Last year, we employed the authority provided under Section 124 of the Trade Act of 1974, as amended, to accelerate the tariff reductions agreed to in the Multilateral Trade Negotiations to their final rate of 4.2 percent for both countries. This reduction eliminated the significant disparity between U.S. and Japanese tariffs on this item. Since this 124 authority has expired, we have supported separate legislation that would give the President additional authority to negotiate these duties down further, if he found it to be in the national economic interest.

In addition, we have presented the Japanese with a series of proposals for the promotion of foreign semiconductor exports to Japan. The Japanese agreed to consider these proposals and possibly generate additional ideas of their own on improving access to the Japanese market. Our objective is to implement a mutually acceptable program for import promotion by Japan in November of this year.

In my own discussions in Japan, I was very impressed with the personal commitment of Prime Minister Nakasone to opening up the Japanese domestic market to U.S. products and investment.

In addition to ensuring that the Japanese market is open, however, there are steps that we can take and are taking on our own to improve the competitiveness of the U.S. semiconductor industry.

## THE ADMINISTRATION RESPONSE

As these two cases illustrate, we are aware of the actual and potential impact of foreign targeting practices and are responding where appropriate. Our response has been geared to the specifics of the industry, focusing on how we can best offset any unfair advantage that a foreign government hopes to gain through targeting. In some instances this has involved undertaking discussions with the objective of liberalizing trade; in other cases we are working to change domestic policies that may have placed our firms at a competitive disadvantage. Our response, however, is part of an overall approach designed to safeguard our leadership position in the world economy.

Mr. Chairman, the policies that we are pursuing ensure a strong U.S. economy--we do not advocate emulation of foreign industrial policies to achieve our objectives, but neither can we afford to have U.S. industrial competitiveness eroded by self-imposed barriers to trade or foreign unfair trade practices. As participants in the world trading environment, we have to accept the challenges and responsibilities of interdependence. It is no longer realistic for the Congress, the Executive Branch, U.S. industry, or the unions to make decisions without being aware of the global competitive forces around us. Inefficiences in our system which may have been tolerable just a decade ago when trade only accounted for 8 percent of our gross national product, are not acceptable today when trade represents 20 percent.

We believe the Government must do its part to nurture an environment that will support U.S. economic interests. This involves both providing the foundation for economic growth and developing and enforcing the international rules of the game.

## Creating a Foundation for Economic Growth

Mr. Chairman, the role of the Government is to support a sound fiscal and monetary policy that encourages sustained non-inflationary growth, and to facilitate investment in our economy. The President's program has been extremely successful in reducing both inflation and interest rates. This will encourage investment, and in conjunction with the production of high quality and competitive products, will enable U.S. industries to position themselves for greater sales in the domestic and international markets.

However, we need to do more than just pursue sound macro economic policies if we are to strengthen our ability to compete. We must reexamine policies which affect U.S. industrial competitiveness in the domestic and export market. This reexamination is underway in the areas of antitrust, regulatory reform, export disincentives, research and development, and education and training.

Changes in Antitrust Laws. The Administration is proposing amendments to existing antitrust legislation to facilitate more joint research. We believe this will help the U.S. competitive position by reducing R&D risk, promoting efficient use of scarce technical personnel, and achieving desirable economies of scale. It will help to ensure that our antitrust laws do not stand in the way of U.S. efforts to compete in the areas of joint R&D technology.

Regulatory Reform. This Administration is working to reduce the regulatory burden in several areas of the economy. For example, more effective and streamlined procedures have been introduced into the regulation of pharmaceuticals and automobiles. The deregulation of oil prices in 1981 is one of several factors that resulted in a net decrease in the prices of crude oil and refined petroleum products. The Paperwork Reduction Act of 1980 and the deregulation of Federal programs to State and local governments incorporated in President Reagan's Federalism initiative are making government at all levels more productive and more responsive to the needs of business and the population at large. The Financial Institutions Regulatory Reform Act of 1982 contains several provisions that remove inefficient Federal regulations from the financial services industry. These reforms should help businesses to become more efficient domestically and more competitive in the international marketplace.

Disincentives to Export. One of our major priorities is to reduce disincentives to trade. Consistent with this policy, the Administration has proposed modifications to the Foreign Corrupt Practices Act. Clarification of the Act's intent and implementation is essential because its uncertainty and ambiguity have had a chilling effect on American efforts to trade overseas. As you know, legislation has been passed by the Senate and is now the subject of hearings in the House.

Another important development is the enactment of the Export Trading Company Act. The Act removes antitrust uncertainties and various financing constraints for those participating in export transactions. With advance antitrust certification, U.S. firms may jointly supply overseas requests for manufactured goods and services. In addition, the Act lifts the prohibition on equity participation of banks and financial institutions in these export trading companies. We believe this Act will be useful in facilitating additional export sales, particularly those of small and medium-sized businesses.

Increased Research and Development. There are two aspects to the issue of U.S. Government support for R&D: funding and access. Although most Government-sponsored research goes to develop new weapons systems, new funds earmarked for R&D in the fiscal year 1983 budget will produce some civilian benefits.

We still believe, however, that technological advancement and innovation can be best carried out by the private sector. R&D should be stimulated in the private sector by lower inflation and interest rates and the signs of a sustained economic recovery. The Administration is also proposing amendments to the antitrust and intellectual property laws that would enable firms that undertake R&D to make use of the product of their efforts more efficiently. By increasing the returns for those who engage in R&D, the amendments would act to stimualte R&D efforts. In addition, the recent Federal Research and Development Tax Credit provides an incentive for companies to expand levels of R&D funding. The Administration is also reexamining its tax regulations to better recognize the need to enhance research in software, which is vital to servicing manufacturing sectors of our economy.

Access to basic research and development programs sponsored by the Government is now the subject of much examination. American companies should have the opportunity to participate in foreign joint R&D programs which are equivalent to the opportunities enjoyed by foreign companies in the United States. We are pursuing this objective in our high tech talks with the Japanese.

Education and Training. The responsibility for ensuring a leadership position in the world economy rests not only with the Federal Government, but with a commitment to excellence on the part of each individual. The general decline of primary and secondary education poses a singificant long-term threat to our economic vitality. Evidence of this decline is documented all too clearly by the recent findings of the President's National Commission on Educational Excellence. The Commission reported widespread deficiences in the fundamentals of English, mathematics, and science.

America has long been distinguished for the best products of her educational system--the scientists, doctors, writers, engineers and teachers who made possible sustained progress in discovery and invention and who fueled America's technological primacy in the world. Yet even the contribution of these intellectual and scientific leaders is undermined by the lack of financial incentives and social prestige accorded to them. During the seventies, the number of engineers graduating from American universities decreased sharply.

The President is interested in counteracting this trend and has proposed programs to award substantial grants to those undertaking doctoral research. Further, he has proposed measures to increase the number of math and science teachers for elementary and secondary education.

Another implication of the world's rapidly changing economy is that education and professional training must become an on-going process for many Americans whose jobs will be increasingly affected by evolving technology. The private sector now funds roughly $30 to $40 billion each year to update the needed skills of its employees. Such programs are of critical importance and the President's proposal for a job voucher tax credit should encourage employers to do more on the job training for new employees.

We need to retrain displaced workers as well. The President has proposed a ten-fold increase in funds to train displaced workers under the Job Training Partnership Act for which we fought last year. The program would be very promising because of greater private sector participation.

## Enforcing Our Rights

Unilateral actions taken to strengthen our economy are not enough to ensure us a leadership position in the world economy. We simply cannot be oblivious to actions that other governments are taking that may affect U.S. economic competitiveness. We must continue to effectively enforce our rights under both international and domestic laws; and continue to adapt the rules of the game to changing economic circumstances. We are agggressively carrying out these responsibilities. As per your request, Mr. Chairman, I have attached a summary of Section 301 petitions that have been filed with my Office.

In addition, we have taken a host of steps to persuade foreign governments to change policies that we believe to be inconsistent with the principles of a strong international trading system. We have initiated 22 complaints under the dispute settlement procedures of the GATT over the past two years. We have also protected our interests from other governments' unfair trade practices in third markets by direct action like our subsidized wheat sale to Egypt.

Finally, we are devoting considerable energies to addressing the issue of foreign targeting. We are presently engaged in a dialogue with the Japanese on industry related policies in order to better understand Japanese practices that impact trade. We have had two sets of meetings with the Japanese on this issue and believe the information we are gathering will enable us to better address the potential problems associated with industrial policies. It may also provide us with some creative ideas on how to best facilitate a favorable economic climate for our own industry.

In order to determine whether current law is adequate to address the foreign targeting issue, an interagency working group, under the asupi^es of the Trade Policy Committee is involved in a work program that includes: identifying and categorizing foreign targeting practices and U.S. Government practices that support industry; developing case studies to analyze the effect on selected U.S. industries of foreign targeting practices; and reviewing the appropriateness of current tools to address these practices. We will be pleased to share with you the results of this effort.

Mr. Chairman, foreign industrial policies, and particularly targeting practices, can in some instances represent a real problem for U.S. industries. As illustrated by the case studies, we are taking measures to respond to this challenge. However, more important than reacting to foreign governments' prescriptions for economic success that are based in large measure on the characteristics of their economies and resource bases, we are taking the steps necessary to encourage industrial development at home based upon the strengths of our economic system.

Our ability to compete in, rather than retreat from, the global market hinges upon our success in realizing this objective as well as ensuring that the rules of the game are effectively enforced. Our future economic strength can be assured only if we are able to reap the benefits of an interdependent world.

Thank you.

## STATUS REPORT
## Section 301 Petitions

The following Section 301 petitions have been before USTR during 1983:

| Subject | Status |
|---|---|
| EC export subsidies on WHEAT FLOUR (301-6) | A 3-member Subsidies Code panel issued its conclusions on February 24. The panel report was considered by the Code Committee on April [illegible], May 19, and June 10, and is still pending. |
| EC tariff preferences on CITRUS (301-11) | GATT Article XXIII:1 consultations were held in Geneva on April 20. We requested a panel at GATT Council meetings on June 29 and July 21. However, since there was disagreement about the propriety of our request, we agreed to attempt conciliation of the case. Conciliation efforts failed. On November 2 the GATT Council agreed to establish a panel. Efforts to establish terms of reference and the composition of the panel have been delayed. The panel is not expected to meet before September. |
| EC export subsidies on SUGAR (301-22) | We completed the Subsidies Code conciliation phase April 30. On June 28, the President directed USTR to continue international efforts to eliminate or reduce EEC sugar export subsidies, including, if appropriate, resort to dispute settlement under the Subsidies Code. |
| EC and Brazil export subsidies on POULTRY (301-23) | We held formal Subsidies Code consultations with the EC on February 16 and October 4, 1982. On July 12, 1982 the President directed us to examine Brazilian subsidies as |

| | |
|---|---|
| | well. We held informal consultations with Brazil on August 30, 1982 and March 1, 1983 and formal consultations under Code Article 12 were held April 1, 1983. A tripartite meeting with the EC and Brazil was held June 23, 1983. We now intend to request conciliation. |
| EC export subsidies on PASTA (301-25) | This case is currently before a Subsidies Code panel, which held its first meeting on July 12. On July 21 the President directed USTR to expeditiously complete dispute settlement. A second panel meeting was held October 8. At the EC's request, an additional panel meeting was held March 29. The panel's conclusions were issued April 19 and distributed to the Code Committee May 19. The Committee discussed the report on June 9, and it is still pending. |
| EC production subsidies on CANNED FRUIT AND RAISINS (301-26) | We held GATT XXIII:1 consultations in Geneva on February 25, 1982 and requested a panel on March 31. The EC requested additional consultations, which were held on April 29. On August 17 the President directed USTR to complete dispute settlement. A GATT Panel met on September 29 and October 29. Due to the illness of one Panel member, the panel report was delayed. We received the factual part of the report on April 19. |
| Austria, France, Italy, Sweden the UK and Belgium production subsidies on SPECIALTY STEEL (301-27 to 301-31 and 301-33) | On November 16 the President directed USTR to request an ITC investigation under Section 201, to initiate multilateral and/or bilateral consultations, and to monitor U.S. specialty |

| | |
|---|---|
| | steel imports. On March 24, the ITC found injury on all products, and on April 27 issued its report. Meanwhile, bilateral consultations have continued. |
| Canadian duty remission scheme for FRONT END WHEEL LOADERS (301-34) | Petition was filed July 27, 1982. Petition was amended and refiled on September 13. USTR initiated an investigation on October 28. Public hearing held December 14. Consultations under GATT Article XXII were held December 21. |
| Brazil, Japan, Korea and Taiwan import restrictions on FOOTWEAR (301-35 to 301-38) | Petition was filed October 25, 1982. USTR initiated investigation on December 8. Consultations were held January 17 with Taiwan, January 27 with Japan, and February 5 with Korea. Consultations with Brazil were held on April 4. |
| Japan's commitment to restrain exports to the EC of CARBON AND ALLOY STEEL | Petition was filed December 16, 1982. On January 31, 1983, petition was temporarily withdrawn and was refiled on February 23. On February 25 the petition was rejected by USTR without prejudice. |
| Korea's exports of STEEL WIRE ROPE | Petition was filed March 16, 1983. USTR decided on May 2 to initiate an investigation with respect to 2 of the five allegations in the petition. Public hearing held June 2. |
| Argentina, Brazil, Canada Malaysia, Portugal & Spain subsidies and restrictions affecting SOYBEANS AND OTHER OILSEEDS | Petition was filed April 6, 1983. On May 23 USTR initiated an investigation. Article XXII consultations requested with Portugal and Spain; Subsidies Code consultations requested with Brazil. Public hearing held June 29 and 30. |

A summary of each of these petitions is attached.

6/30/83

## SUMMARY:
## 1983 Section 301 Petitions

### Wheat Flour Investigation (EC)

The Millers' National Federation filed a Section 301 complaint against the EC in December, 1975. The complaint alleged that the EC violated its international obligations under GATT Article XVI:3 by using export subsidies to gain more than an equitable share of world trade in wheat flour.

After numerous consultations with the EC, USTR decided to pursue this case under the Subsidies Code in September, 1981. Consultations with the EC were held on October 28, 1981 and the conciliation phase of dispute settlement was completed on December 15, 1981. The case was referred to a three-member panel of the Subsidies Code Committee, which issued its conclusions on February 24, 1983. The panel report was considered by the full Subsidies Code Committee on April 22, May 19, and June 10, and is still pending.

### Citrus Investigation (EC)

In 1975, citrus interests in Florida, California, Arizona and Texas filed a petition with USTR alleging that preferential import duties established by the EC for imports of citrus fruit and juices from certain Mediterranean countries have an adverse effect upon United States citrus producers.

During the Tokyo Round of the MTN, representatives of the United States sought reductions in the EC duties on citrus products. The EC agreed to reduce the duty on fresh grapefruit from four to three percent ad valorem but no reductions on other itmes were forthcoming. Following the MTN negotiations, further bilateral discussions were held, and formal consultations under GATT Article XXIII:1 were held in October 1980. In March 1982, the U.S. requested consultations with the EC under Article XXIII:1 of the GATT. They were held on April 20. The U.S. requested a GATT panel at the GATT Council meetings on June 29 and July 21, 1982. However, there was disagreement in the Council about the propriety of the request. The U.S. agreed to attempt conciliation, using the good offices of the GATT Secretariat, but conciliation efforts failed. The GATT Council agreed on November 2, 1982 to establish a panel. We have experienced some problems in establishing mutually acceptable terms of reference and panel membership. The panel is not expected to meet before September.

### Sugar Investigation (EC)

A Section 301 petition complaining of EC export subsidies on sugar was accepted for investigation by USTR on October 5, 1981. The petition alleges that EC exports of subsidized sugar are inconsistent with the Subsidies Code. The petition states that the subsidies: (a) cause serious prejudice to U.S. interests, (b) undercut the price at which U.S. sugar is exported, (c) enable the EC sugar industry to obtain more than an equitable share of world export trade, and (d) depress the price of sugar on world markets and consequently, the price in the U.S. domestic market.

A public hearing was held on November 4, 1981 at which interested parties presented their views on the allegations in the petition. Consultations with the EC under the Subsidies Code were held on February 16, 1982, in Geneva. The case was referred to the Subsidies Code Committee for conciliation, and conciliation meetings were concluded April 30, 1982.

On June 28, 1982 the President, upon the recommendation of USTR and the TPC, decided that the appropriate action was to direct the USTR to continue international efforts to eliminate or reduce EEC sugar export subsidies, including, if appropriate, resort to the dispute settlement procedures of the Subsidies Code.

### Poultry Investigation (EC and Brazil)

On October 28, 1981, USTR decided to initiate an investigation of EC export subsidies on poultry. This action was taken in response to a petition filed by the National Broiler Council and others alleging that the poultry subsidies programs of the EC and France adversely affect U.S. commercial interests. Consultations with the EC under the Subsidies Code were held on February 16, and October 7, 1982, in Geneva. Informal consultations with Brazil concerning its export subsidies on poultry were held in August 1982 and March 1, 1983. Formal consultations with Brazil under the Subsidies Code were held April 1, 1983. On June 23, 1983, a trilateral meeting with the EC and Brazil was held in Washington. The U.S. now intends to request conciliation under the Code.

The Broiler Council petition makes two basic allegations: (a) the EC export subsidies on whole chickens violate Article 10 of the Subsidies Code in that the EC, through such subsidies, has obtained more than an equitable share of world trade in whole chickens and has displaced U.S. chicken exports to specific markets, including the Middle East and the Caribbean; and (b) EC export subsidies threaten serious prejudice to U.S. poultry producers in violation of Article 8 of the Subsidies Code, since the effect of the EC system is to cause uncertainty in the world market and threaten displacement of U.S. exports of poultry and poultry parts to third country markets.

A recommendation to the President regarding the poultry petition was made on June 28, 1982. On July 12, the President directed expeditious examination of Brazilian subsidies on poultry as well as EC subsidies.

Pasta Investigation (EC)

On October 16, 1981, a petition was filed by the National Pasta Association alleging that the subsidies program of the EC adversely affects U.S. commercial interests and violates the GATT and Subsidies Code. USTR initiated an investigation on November 30, 1981, and requested consultations with the EC under the Subsidies Code. However, the EC refused to consult and on March 3, 1982, the U.S. referred the matter to the Code Committee for conciliation. When conciliation failed, the U.S. requested a panel on April 7. The panel met on July 12 and October 8, 1982, and issued the factual portion of its report in January 1983. The EC requested an additional panel meeting which was held on March 29, 1983. The panel's conclusions were issued April 19, and distributed to the Code Committee May 19. The full Committee met on June 9 to discuss the panel report, and the matter is still pending.

The Pasta Association petition alleges that EC export subsidies on pasta products violate Article 9 of the Subsidies Code in that such subsidies on non-primary products are absolutely prohibited. Although the Article 9 allegations are dispositive of the case, the petition also alleges that EC export subsidies threaten serious prejudice to the U.S. pasta manufacturers contrary to Article 8 of the Subsidies Code, by displacing U.S. manufacturers in their home markets.

A recommendation to the President regarding the pasta petition was made on June 30, 1982. On July 21, the President directed USTR to expeditiously complete dispute settlement.

Canned Fruit and Raisins Investigation (EC)

On September 11, 1981, a petition was filed by the California Cling Peach Advisory Board and others alleging that the EC production subsidies program adversely affects U.S. commercial interests and violates the GATT. On October 22, 1981, that petition was withdrawn for revision and was refiled on October 29. On December 10, 1981, USTR decided to initiate an investigation on the allegations in the petition.

The petition alleges that EC production subsidies on canned peaches, canned pears and raisins have resulted in displacement on U.S. exports of those products to the EC, and have impaired EC tariff bindings on those products.

A public hearing on this petition was held on January 6, 1982, and consultations with the EC, under Article XXIII:1 of the GATT, were held on February 25, 1982 in Geneva. On March 31, 1982, the U.S. requested a GATT panel under Article XXIII:2. The EC requested additional consultations on raisins, which were held on April 29. The panel met on September 29 and on October 29, 1982, and issued the factual portion of its report on April 18, 1983.

On August 17, 1982, the President directed USTR to proceed expeditiously with dispute settlement.

### Specialty Steel Investigations (Austria, France, Italy, U.K., Sweden and Belgium)

On December 2, 1981, the members of the Tool and Stainless Steel Industry Committee and the United Steelworkers of America filed a petition under Section 301 alleging that domestic subsidies for the specialty steel industries of seven foreign countries (Austria, Belgium, France, Italy, Sweden, U.K., and Brazil) violate GATT and Subsidies Code obligations, and cause adverse effects to U.S. industry. On January 12, 1982, the petitioners submitted a substantial amount of additional information which constituted a new amended petition. On February 26, 1982 USTR initiated an investigation and requested informal consultations with five countries. These consultations began during the week of March 15, 1982. A public hearing was held on April 14, 1982, on all five cases. Formal consultations under the Subsidies Code were held with Sweden during the week of October 11 with Austria during the week of October 18, and with the EC during week of October 25, 1982.

The countries which were the subject of that investigation were: France, Italy the U.K., Austria, and Sweden. (The complaints regarding Belgium and Brazil were rejected.) The products are: stainless steel sheet and strip, stainless steel plate, stainless steel bar, stainless steel wire rod, and alloy tool steel.

On June 23, 1982, the Tool and Stainless Steel Industry Committee and United Steelworkers of America filed a new petition alleging that production subsidies on specialty steel in Belgium violate the Subsidies Code and cause adverse effects to U.S. industry. USTR initiated an investigation of that petition on August 9, 1982. Formal consultations under the Subsidies Code were held during the week of October 25, 1982.

A recommendation to the President was made in all six cases on October 26. On November 16, 1982, the President directed USTR to (1) request the ITC to conduct an expedited investigation under Section 201 of the 1974 Trade Act; (2) initiate multilateral and/or bilateral discussions aimed at eliminating all trade distortive practices in the specialty steel sector; and (3) monitor U.S. imports of specialty steel products subject to the Section 201 investigation. Further bilateral consultations were held in January, 1983.

On March 24, 1983, the ITC determined that U.S. imports of all the products listed above are a substantial cause of serious injury to the domestic industry. On April 27, 1983, the ITC issued its recommendations for relief.

## Wheel Loader Investigation (Canada)

On July 27, 1982, the J.I. Case Company, a U.S. manufacturer of construction and agricultural equipment, filed a petition alleging that Canada's regulations allowing the remission of customs duty and sales tax on certain front-end wheel loaders and their parts imported into Canada violate the GATT and the Subsidies Code and constitute an unreasonable and discriminatory practice which burdens and restricts U.S. commerce.

The petition was amended and re-filed on September 13. On October 28 USTR initiated an investigation under section 301. A public hearing was held on December 14, 1982. Consultations with Canada under Article XXII of the GATT were held December 21, 1982.

## Footwear Investigations (Brazil, Japan, Korea, Taiwan)

On October 25, 1982, the Footwear Industries of America, Inc., and others, filed a petition alleging that tariff and non-tariff barriers on footwear in numerous countries have resulted in the diversion of footwear exports to the U.S., and therefore seriously injure the U.S. nonrubber footwear industry. The petition claims violation of various GATT provisions, and alleges that the foreign practices are unjustifiable and unreasonable. The foreign countries named in the petition are the EC (and France, the UK and Italy), Spain, Brazil, Korea, Taiwan, and Japan.

On December 8, 1982, USTR initiated investigations with respect to restrictive practices in Brazil, Japan, Korea and Taiwan, and declined to investigate the allegations of trade diversion and the practices of the other countries named in the petition. Consultations with Taiwan were held January 17, 1983 in Washington, and consultations under GATT Article XXII were held in Geneva with Japan on January 27 and with Korea on February 5. Consultations with Brazil were held April 4, 1983.

## Carbon and Alloy Steel Petition (Japan)

On December 16, 1982, the American Iron and Steel Institute and others filed a petition alleging that the commitment of the

Japanese government to restrict steel exports to the European Communities is inconsistent with the MFN provisions of the GATT and the U.S.-Japan Treaty of Friendship, Commerce and Navigation; and that Japan's action is unjustifiable, unreasonable, discriminatory, and burdens and restricts U.S. commerce. The petition claims that the Japanese commitment to the EC has resulted in diversion of its exports to the U.S.

On January 31, 1983 the petition was withdrawn to afford USTR an opportunity to reach an acceptable agreement with the Government of Japan resolving the issues raised in the petition. The petitioners indicated, however, that the petition would be refiled on February 23, 1983 if USTR was unable to reach an agreement satisfactory to the petitioners. The petition was refiled on February 23 and rejected by USTR, without prejudice, on February 25.

## Steel Wire Rope Petition (Korea)

On March 16, 1983, the Committee of Domestic Steel Wire Rope and Specialty Cable Manufacturers filed a petition alleging that certain practices of the Republic of Korea Government with respect to exports of steel wire rope are actionable under Section 301 because they are unjustifiable and discriminatory, violate U.S. trade agreements, burden and restrict U.S. commerce, and have caused material injury to the U.S. industry. The factual allegations are that Korean steel wire rope producers/exporters receive substantial direct subsidies both from the Korean Government and from the Pohang Iron and Steel Company, a company owned by the government; that Korean wire rope is improperly marked, impairing U.S. producers' rights in trademarks; and that the implementation of trade restraint agreements between the Governments of Korea and Japan divert Korean wire rope exports to the U.S. market.

USTR decided on May 2, 1983 to initiate a Section 301 investigation with respect to the allegations relating to the grant of direct and indirect production subsidies. A public hearing was held on June 2.

## Soybean Petition (Brazil, Portugal, Spain)

On April 6, 1983, the National Soybean Processors Association filed a petition complaining of several trade practices in six countries which the petitioner alleges are inconsistent with the GATT or are otherwise unreasonable restrictions on U.S. commerce. The countries included in the petition are Argentina, Brazil, Canada, Malaysia, Portugal and Spain. The products covered are soybeans, soybean oil, soybean meal, palm oil, olive oil, sunflower seeds, oil and meal, rapeseed and rapeseed oil and meal. Among the practices complained of are export subsidies, production subsidies, and quantitative restrictions.

On May 23, 1983 USTR initiated a Section 301 investigation with respect to the allegations concerning Brazil, Portugal and Spain; and rejected the allegations regarding Argentina, Malaysia and Canada. Consultations were requested with Brazil under the Subsidies Code and with Portugal and Spain under GATT Article XXII. A public hearing was held June 29-30.

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Senator **Bentsen**. Mr. Ambassador, you made reference to the airbus in your prepared statement. We have seen the A-300 and the A-310 developed by a consortium of governments going together, putting some $5 billion into it. That consortium has enabled the European airbus to meet U.S. aircraft prices and beat them. As a result, they have gained approximately 30 percent of the world market, even though that airbus costs from 20 to 25 percent more to build than comparable U.S. aircraft, and the break-even point of 900 aircraft sales of those models may never be met.

Now I remember very well the discussion with Eastern Airlines when they made their very substantial first buy from that consortium. And their answer was, well, look what kind of a subsidized interest rate they have given us, far below the market, and we have no choice but to buy it insofar as what best serves our stockholders, at least in the short run.

And now the consortium is talking about a new aircraft, the A-320. That is on the drawing boards. And where in the past, the consortium was composed of France, West Germany, Spain, Belgium, and England, now they are talking about adding Australia, Canada, Italy, Holland, Japan, and Yugoslavia to the consortium.

You know what happens if they put this larger group together? Then these additional countries tend to not buy our own aircraft, in addition to moving into our markets in third countries using subsidized interest rates and prices.

I think the airbus is a blatant example of an unfair trade practice. And yet, U.S. firm feel powerless under current law to bring a halt to that kind of unfair competitive practice. For example, what can McDonnell Douglas or Boeing do to offset that kind of an enormous subsidy? Boeing, for one, has asked the administration for help, and I assume you are probably getting the same thing from McDonnell Douglas.

What are you doing to try to help?

Mr. **Brock**. Well, I think you mentioned the question, or you asked the question what can a company like McDonnell Douglas do? There's a pretty good example of what can be done with a good coherent Government response, joining hands with business. A major effort was made to sell into Italy the Super 80 aircraft and McDonnell Douglas got that order for a billion dollars. There was an active round of consultations and a great deal of cooperation. We were involved as were other Government offices and our officials overseas. And I think that does demonstrate that when focused on that kind of competition. we can be pretty effective.

I might point out one other fact, too. I think in this particular example, you have a fairly good case study of how governments do get into these things and how much they cost.

In discussing the A-320, I gather that there is a good deal of difficulty in putting together the same consortium that was put together for the old one, that the market is not sufficiently assured to attract the kind of investments that governments would have to make. And it may be that this is going to pose a much greater challenge for those who would advocate that kind of Government intervention.

I am not so sure that I would write off our ability to handle that kind of competition over a period of time. I do think we have to——

Senator BENTSEN. Well, based on what you have told me was done for McDonnell Douglas, does that mean that we are facing an era of what you might call negotiated markets?

Mr. BROCK. No. No, I certainly hope not. It does mean that I believe this Government, as most other governments, should actively support and promote American enterprise in the conduct of its business.

Senator BENTSEN. Well, I certainly think that they should, too, and I don't think that pushing American commercial interests is anything to apologize for.

Mr. BROCK. I am not apologizing.

Senator BENTSEN. No, I understand that.

Mr. BROCK. When you say negotiated markets, that implies something else to me.

Senator BENTSEN. That is right, and I am beginning to wonder at what point our world markets really, in effect, become negotiated markets. One option to counteract what that consortium has done in selling the air-bus is to offer subsidized interest rates for our exports. But another is to say, "You know, we are not going to subsidize exports as much here or there if you do not make such and such a deal." I do not know at what point it is free market and what point it becomes a negotiated market.

Mr. BROCK. Yes. But, see, we did not do that. We did not subsidize and we did not cut a deal on who gets what share of what market.

Senator BENTSEN. Well, I am concerned that this may be the logical conclusion to our complaints to the Europeans. Let me ask you about another targeting situation. The European Common Market has subsidized agriculture for a long time. We have had a head-to-head confrontation on this because we have seen them giving cash subsidies of as much as $2 per bushel on wheat, and 50 cents per pound on beef. Those subsidies have worked in a spectacular manner to grab markets from our farmers.

You know, first the EC argument was that they were going to try to be self-sufficient. But, they have gone far beyond that. EC wheat exports now comprise 13 percent of world trade, up from 3 percent in 1971. And the kind of barriers that they have put up against imports of our products have substantially hurt. The administration, I think, has been notably unsuccessful, as have previous administrations, in dealing with either Japan or the European Common Market on either their export subsidies or their import barriers.

Now you have taken the lead in discussions to push the EC for free trade. But I do not see progress with it.

I did see the situation where a sale was made of wheat flour to Egypt at a substantially subsidized price. That should have sent a message to the French and some of the others who have moved in on those markets with their subsidized products.

Now there has been some recent speculation in the Wall Street Journal about maybe sending another message to the EC by subsidizing U.S. butter exports. Is there any truth to that speculation?

Mr. BROCK. Yes.

Senator **Bentsen**. That is fine. That is a straightforward answer. [Laughter.]

Mr. **Brock**. Let me caution you. I am not sure that I would call it quite as dramatic a message as the original wheat flour deal for two reasons. First, the offer was made to sell this product back in January, so it is not a new policy. Second, it was made at world prices. So it is somewhat different from the wheat flour deal.

But in discussing whether or not to make the offer at that time, the very clear intention was to be sure that people understood that the United States had just about reached the limit of its patience and talk on the subject of unfair practices, particularly export subsidies in this particular area.

I am not so sure, Senator, that I would accept a statement of failure yet in this regard. The talks that we have had since the wheat flour——

Senator **Bentsen**. I phrased it a little differently. I said, no success up to now, rather than failure yet.

Mr. **Brock**. OK. Well, the glass is at least half full. We can look at it that way. [Laughter.]

But I do think that a willingness to take really specific steps to demonstrate the integrity of our position is necessary to a successful negotiation because this is a subject that has been talked about for 10 or 15 years without resolution. In that regard, you are absolutely right. But, in all candor, I believe that the negotiators for the European Community, led by Commissioner Havercamp and Commissioner Dawsager, have been sincere and I think we have made some progress in at least the quiet conversations. Whether that translates into reality depends as much on their budget circumstances as it does in the negotiations.

Senator **Bentsen**. Well, Mr. Ambassador, I certainly hope it translates into reality. But it seems to me when we get into the question of agricultural subsidies, that we have a tremendous advantage insofar as our cost of production compared to the European Common Market. And if it gets into a fight we have that fundamental principle and reality in our corner; they ought to understand that. And if we are willing to fight in order to get back to something that resembles free trade, then we have that advantage on our side.

Mr. **Brock**. We have considerable resources, Senator. We also have our own problems. We are not competitive in those areas where we have subsidized. And that has removed our ability to do as effective a job as we could have internationally. The United States is subsidizing through price supports and other mechanisms several products that are very expensive. When you look at an area like the dairy area, we have a similar program to that which exists in the EC. So we cannot really find fault with them since we are doing essentially the same thing.

The only market that we have in which to engage in massive competition is the Soviet market, and that constrains our ability a good deal to compete with subsidies.

Senator **Bentsen**. Well, there is no doubt that what they are doing—subsidizing most of their agricultural products substantially above the world market——

Mr. **Brock**. Yes.

Senator BENTSEN [continuing]. And then turning around and selling it at whatever it will bring on the world market—should be a violation of our trade laws. It certainly continues to erode our world market.

Mr. BROCK. That is correct.

Senator BENTSEN. Let me turn to the issue of the effectiveness of our trade laws in dealing with foreign targeting practices. Mr. Galvin and others in private industry have noted that our trade laws just do not provide adequate remedies to U.S. firms in competition with firms favored by foreign government industrial targeting. Commerce Under Secretary Olmer is more explicit. In a speech delivered before the National Press Club in March, he said:

> As long as foreign governments provide advantages for their industries, while raising obstacles to market access by our own, as long as the American marketplace remains fair game for the industrial policy of others, our companies may not be capable of prevailing. In the past, we have relied on multilateral trade agreements to address the issues of fair trade. They are as yet too narrowly focused to provide relief for emerging practices of industrial targeting.

Is the Under Secretary's statement that current trade laws are inadequate to deal with industrial targeting the administration's position?

Mr. BROCK. No.

Senator BENTSEN. You do not agree with the Under Secretary, then?

Mr. BROCK. I think I agree with the expression of concern, but I am not sure that I can go so far as to say that our current laws are totally inadequate, either. I think the analysis——

Senator BENTSEN. I did not say totally inadequate, just inadequate.

Mr. BROCK. Well, the implication was that there simply was no defense and that is not true. I think it is fair to state that there is a degree of sophistication in foreign governments in devising new methods of industry support that have been very difficult for us to find ways to deal with, either internationally, under international or domestic law, in part, because we do not know how to qualify some of these things. We have very rigid antitrust laws in this country, for example. There is a reasonable question as to whether or not they are applicable in a global competitive environment or whether they should be looked at for change. But the fact is that they are there.

And in other countries the foreign governments actively cartelize their industries.

Senator BENTSEN. Well, are you prepared to recommend some changes in those laws?

Mr. BROCK. Yes; we have made some changes. The Justice Department has already recommended a number of administrative changes.

Senator BENTSEN. Let me give you an example. I do not think it makes any sense for the United States Steel to go over and buy a bar of steel in England because they cannot deal with a major firm in this country to try to work out a joint production agreement. I do not think it makes any sense for an automobile concern to have to go through the same sort of thing in Europe or in Japan because they cannot make that kind of a deal with a major company in this country. I am talking about sharing basic manufacturing facilities to avoid job loss abroad.

Mr. BROCK. Yes.

Senator **Bentsen.** It seems to me that when you are getting to the major manufacturing facilities, for example, in the steel industry, that we ought to find some way where they can get together on some aspects of the manufacturing process, not on prices, not on retail, not on financing. They should be able to share out a major capital investment in a dwindling industry, in a declining industry to stay efficient and alive.

Mr. **Brock.** I happen to agree. I really do. And I do not understand how we can define competition as if it existed only within the parameters of 50 States.

Senator **Bentsen.** No longer. You know, that was 100 years ago. It is a different ball game now.

Mr. **Brock.** Absolutely. Certainly.

Senator **Bentsen.** I think the administration ought to be looking at some serious changes in those laws—to try to meet the kind of competition that we are facing—so we can keep these jobs at home instead of forcing these jobs abroad.

Mr. **Brock.** I really agree with that and all I am suggesting is that we have a very active program underway to do precisely that. We have three different teams working with Japan to look at the whole range of industrial policies and then two specific, very highly focused concerns under the high-tech working group which is primarily focused on semiconductors, and then the working group that is looking as a consequence of the *Houdaille* case in the machine and area. That is ongoing. We have the working group of the Trade Policy Committee doing a number of case studies to analyze the adequacy of United States and international laws in responding to the target challenge.

In my response to your question, I am simply unwilling to make a categorical statement about the current adequacies of U.S. law to respond to the practice of others. That is all I was trying to say. When we talk about changing antitrust laws, we ought to do that, not because somebody else is doing something, but because it happens to be that the laws simply are not reflective of the competitive world in which we now live. It is a different world from the day when the law was written, not because Japan has a cartelized industry, but because it is in our interest to have global competitive circumstance for our companies.

That is all.

Senator **Bentsen.** I know there is a division within the administration on the wisdom of imposing selective trade controls. Some would argue that the administration has become decidedly more protectionist in recent months, as it has imposed tariffs and quotas on stainless steel, tariffs on Japanese motorcycles, quotas on textiles from China, and subsidized flour exports to Egypt.

Now what I am trying to see is where our policy on trade is headed and where the consistency is. On the one hand, we have these new tariffs and quotas. Yet, I look at the Williamsburg summit, where the President pledged to dismantle trade barriers. And I know that we have Third World nations like Brazil, Mexico, and others that are in real economic trouble, and trying to pay off their staggering debts by increasing their exports.

How do you weave all those diverse threads together to explain what the administration's trade policy is? Do you want to try that one for size?

Mr. **Brock**. Sure. [Laughter.]

Senator **Bentsen**. All right.

Mr. **Brock**. You have time, do you not? We will see what we can weave.

I think it is fair to state that we, like a lot of Members of Congress, have become pretty frustrated with the absence of progress in negotiations and talks and have felt that there, on occasion, comes a time when you have to do something more to demonstrate the political will to solve a problem.

Let me take a couple of the examples that you cited. We have already discussed agriculture and the Egyptian wheat flour sale, so I will not go into that. But I do think that that was a clear indication that we simply are not going to talk ourselves into insolvency by refusing to act. We are not going to let that happen. That is one case.

You mentioned the most recent example of stainless steel and a couple of other cases. Let me try to look at those separately and in the broader context.

First, in the case of steel, Senator, there is no free trade in steel anywhere in the world that I have been able to find in 2½ years on this job. I cannot find it and I have been looking for anybody with a candle to shed some light on that and bring some logic to it.

Now if we do not enforce U.S. trade laws, I do not believe it will ever be possible to maintain a free trade constituency in this country.

Now what we did, when we looked at that subject, we found some countries that subsidized their sales into our markets. We found other countries that limit our sales into their markets and some countries that absolutely prohibit the sale of U.S. products into their markets. We found other countries, a lot of them, that had cartelized the steel industry, both specialty and carbon. We found that the very countries that were criticizing us—a number of those countries were at the very moment of criticizing the United States—were putting additional restraints on the importation of steel into their own markets.

Now, you know, there comes a time when you have to say enough is enough. Now if we are going to go move the world into, hopefully, a more liberal trading posture, it will not be simply because we are patsies, because we lay down and just let the world walk over us when these practices occur. We have identified in the quasi-judicial or legal process that we have under the U.S. trade law subsidies in some of these products up to 20 percent of the sales price. That is a massive subsidy. Now if we do not take an action to deal with that kind of problem, then it is my judgment that we cannot either strengthen the world trading system or maintain a free trade climate here.

So look at what we did and how we tried to structure the solution. We came down with a fairly precise combination of tariffs and quotas. We tried to apply certain basic principles: First, that the remedy should be specific to the need and no more, that it should not constitute a protectionist action, but rather, a response to the unfair trading practice, by and large, in summing the global practices that we found; second, that it should be temporary and should be phased down and out without renewal. And that is all part of the President's proposal; third, that it should be used as an opportunity to try to negotiate with other countries to reduce the unfair trading practices that cause the problem. And I will state for you categorically, Senator, that had there not been the existence of these unfair trading practices in the rest of the world, the government interventions, the distortions, we simply would have had no logic whatsoever to come down with this decision. You could not justify it on any other basis.

So we did try to accept the predicate that our goal is to open up the system and to do so, there are times when you have to be fairly clear and fairly tough.

Now let me mention one other example that you referenced, and that is the China action. We had negotiated with the Chinese five consecutive times in December when the previous agreement expired, and we had done so without any success. We were negotiating sincerely, honorably, honestly, but it is a tough process for both countries and we could not reach an agreement. Because we could not operate without an agreement, we did impose the limits as suggested in our negotiating position, and we have the legal right to do that under the multifiber agreement. But it was not to achieve a protectionist desire. It was simply to say you are going to have to sit down and both sides are going to have to negotiate sincerely.

Now, hopefully, we are back in negotiations again, that matter will be resolved in the near future. But if it is not, we do have the responsibility to comport our practices with one country with the overall practices under the multifiber agreement with all others. And we will continue to do that.

That is not protectionism in the sense that it is a negotiating position if the goal is to reach the agreement. Now let me make this last caveat. We in this country are no purists and we are not without sin in the application of protectionist devices. The Congress has acted in the area. Several administrations have.

I guess if I could summarize our trade policy for you, it is that we live in a real world and we have to respond to the real actions of other people. But the final process has to lead us in a clear sense toward an opening of the trading system, a strengthening of the multilateral rules, because it is by that that we can advantage the American people and create the jobs that trade creates.

If what we do is not in some way designed to achieve that objective, then we made a mistake. And, in all candor, I think we have made a mistake on occasion with certain actions that have been taken in the last 10 or 15 years. But the present trade policy is clearly debated within the administration toward the objective of opening up other markets and strengthening those rules. And that is the analytical base on which we try to reach the decisions that we reach.

Senator BENTSEN. Well, let us go back to this question of steel, then.

Mr. BROCK. All right.

Senator BENTSEN. Last winter, the specialty steel people were asking for some protection and at that point, as I recall, the President chose not to go ahead because he did not find foreign government subsidies an unfair trade practice.

Mr. **Brock**. Now I think he said at the time that he did find government intervention, but we had not quantified it and he wanted to go——

Senator **Bentsen**. The point is that government intervention is not defined as an unfair trade practice. So, he had to cast about for another provision to try to justify quota and tariff protection. Since the protection he provided is not viewed legally under GATT as a response to an unfair trade practice, the Europeans are asking for compensation.

Do you think this Government owes them compensation?

Mr. **Brock**. Well——

Senator **Bentsen**. Why should we provide that if this was an unfair trade practice?

Mr. **Brock**. When you try to deal with a global problem and you fashion a global response, in effect, you are casting a net and in the net you will catch some fish that are not the fish you want to catch.

I think it is fair to state that there are countries who will be affected by this decision who are not engaged in unfair trade practices. There is not a whole lot of them, but there are one or two. If they can find a way under the GATT rules to seek and prove their case, then they have every right to seek and try to prove that case.

All I can suggest to you is that we will try to analyze any request for compensation on the basis of the merit of the argument they make. And I am certainly not going to prejudge the situation. It may be that we simply will not accept their argument.

Senator **Bentsen**. It may be that what?

Mr. **Brock**. That we cannot accept their argument. But we are certainly going to judge it on its merits. And we have not seen those arguments yet.

Senator—let me say this for the public record—I do think that when this Government, for whatever domestic purpose it wants to, chooses to take an action that affects others, and if it is under the rules of the GATT, one which requires compensation because it is a pure escape clause without an unfair trade component, I do not see anything wrong with us having to pay compensation if, in fact, we are doing it for domestic escape clause reasons. That is what the trade laws are all about. We signed them and we agreed to them. I do not find fault with that process. We will seek compensation from others when they do it. And if we do it and have no legitimate argument other than that it is a transition process for adjustment purposes, that would be the case, for example, with the motorcycle industry——

Senator **Bentsen**. But you are not alleging in the steel industry instance that this was the case, are you?

Mr. **Brock**. I certainly am not.

Senator **Bentsen**. Yes.

Mr. **Brock**. But I will give you an example. Well, I guess I could give you some other examples. When we file a 201 case that has no element of unfair trade practice but is done simply under the escape clause rights that the United States has in the GATT, then there's nothing wrong with that.

Senator **Bentsen**. That is not my argument. I have no quarrel with that.

Mr. BROCK. OK.

Senator BENTSEN. But I know you are finding in some of these instances that GATT forces us to file 201 cases even where you do have unfair trade practices—requiring the President to come up with compensation despite the presence of such practices. There is something that we should be doing to try to change our own laws or to try to change the GATT agreement, so that we can move on unfair acts without having to offer compensation.

Mr. BROCK. If it is an unfair trading practice.

Senator BENTSEN. That is right.

Mr. BROCK. OK.

Senator BENTSEN. Yes.

Mr. BROCK. OK.

Senator BENTSEN. Looking now at another industry. The semiconductor industry has stated that the barriers against the sale of their products abroad cost them in 1981 over $3 billion, which translates to about 100,000 jobs. The semiconductor industry feels that most of these barriers exist in nations that are pursuing targeting policies in addition to trade cartels to aid their own electronics industries.

Now, in your current talks with Japan—and I know that you are carrying them on three different bases. Are you making any headway in that regard? Are we going to be facing the same kind of a situation that we have had in the past with Japan, where the concessions given have been pretty much cosmetic and they will talk and talk and export and export? [Laughter.]

Mr. BROCK. That is a pretty good summary. We are making progress. It is, I think, fairly precise progress this time. The actions that they took in the change in the laws passed in the Diet this March or April, the law will be in full implementation by fall. It really will make a difference in a substantial portion of those products that we manufacture. Other talks are ongoing in this particular area with the Japanese that have the prospect of improving the situation.

I know it is easy to pick on Japan because of the practices that they have engaged in for the last 20 or 30 years and the conscious stalling that did occur in earlier years. But I will tell you for a fact that the barriers we are running into in other countries in this category, semiconductors, computers, and the rest, are increasingly severe and are increasingly troublesome. That includes both the developing and developed countries.

Senator BENTSEN. Mr. Ambassador, I agree with that.

Mr. BROCK. I do not mean to single out the Japanese.

Senator BENTSEN. But it has been so long with the Japanese, I am just up to here [indicating].

Mr. BROCK. Yes; I know.

Senator BENTSEN. And we continue to be encouraged with conversation, but we really have not seen much in results.

Mr. BROCK. I disagree. You know, the semiconductor people came to me early when I took this job and they said, we would like to negotiate a mutual reduction in tariffs with the Japanese. We took it to the Japanese and we negotiated and we got precisely what our own people had asked for—a far greater reduction on the Japanese side than we offered. Both of us moved to the same tariff level. That is progress.

Senator **Bentsen**. Mr. Ambassador, you have heard me use this example before. But, you know, I go back to our beef negotiations and recall what happened. They told us that they were going to let us have—and I could be corrected on the number—I think it was 34,000 tons. I was very impressed with that until I got to figuring out that, given the number of Japanese you had, it amounted to about one quarter-pounder per year. And then, finally, we went back and negotiated some more and picked up 14,000 additional tons. But all that really added was a few more quarter-pounders.

So I think we have a long way to go in trying to get some concessions from them.

Mr. **Brock**. I do not disagree. I would suggest to you that I think there has been a greater change in the last couple of years in Japanese willingness to negotiate seriously and in the ability to achieve specific, tangible changes in policy that are quantifiable than I know of in the previous 20 years. I think they are sincere and trying very hard.

You know, the one area that you mentioned of beef is the one area where we signed an agreement and they have the right to hold us to that agreement until April of next year. Now it is going to be a different circumstances at that time. We have been talking about that. But the fact is that we in the United States did sign an agreement with the Japanese in which we put down the numbers. And our name's on the list, on the contract, for beef and citrus.

So we might not like the terms of the contract now, but we did negotiate it.

Senator **Bentsen**. Well, I think the degree of frustration is so high in these negotiations, so high in the Congress, that the mood is one of looking toward new legislation to try to further meet the problem. And I hope they understand that and that this is something that could come to pass. Hopefully, we will make some headway in the negotiations and it will not necessary.

Mr. **Brock**. You know, I share that frustration. And do not let me overstate the case of the other side. I think I am trying to play the balancing role. But if you look at certain areas like the NTT agreement, you cannot help but be pretty well fed up. There just simply have not been any sales under that agreement. Nobody can argue that we are not competitive—we are world class competitors in that area. We are. But let us just be very sure, Mr. Vice Chairman, that as we try to look at our own laws, hopefully improve them in whatever categories we can, that we do not believe that a law change is going to affect something when it may not be the law that is the problem. It may be that we are the source of some problems. Let me express my own frustration with the articles that I have seen in the paper in the last two or three days. I am getting pressured pretty hard on the automobile agreement with Japan, domestically. And I read in the paper that the industry has been evaluated as doing so well and there is so much profit, that we can go back and renegotiate all the wage contracts again.

Now that really makes life tough. I do not think that you can pass a law that bangs down on some other government if, in fact, the present problem is management practices or work rules here.

All I am saying is that——

Senator **Bentsen**. Now which do you think it is?

Mr. **Brock**. I think it is a lot of both. There are industries in this country that are very competitive in Japan, and with Japan worldwide. Others that were competitive whose circumstance has been changed not by anything the Japanese or we have done, but the dollar.

Senator **Bentsen**. Competitive against Japan, but not in Japan.

Mr. **Brock**. Pardon.

Senator **Bentsen**. Competitive with Japan, but not in Japan, in many instances.

Mr. **Brock**. We have a lot of companies that are very competitive in Japan, too. They just happened to get over there 20 years and make investments and stayed with it until they got that market share.

So, you know, I think it is fair to state that while the Japanese have a lot of barriers, a lot of them have come down in the last couple of years and I am not sure that I have seen American business really grabbing the opportunity yet where there has been a change in the barrier.

So it does take—the coin has two sides, that is all. And the law changes may not deal with some of these problems.

Senator **Bentsen**. Well, Mr. Ambassador, I hope you make that progress. Unfortunately, I am not that optimistic about major breakthroughs in the negotiations there. But I wish you well in it and I appreciate very much your testimony this morning. It has been very helpful.

Mr. **Brock**. Thank you.

Senator **Bentsen**. I would like to call now the next two witnesses, Mr. Robert Galvin, who is chairman of Motorola, Inc., and Mr. Howard Samuel, president of the Industrial Union Department, AFL–CIO.

Gentlemen, I am delighted to have you—and the hearing will be in order.

Mr. Galvin, I would like to call on you first to tell me what your reaction is to the comment of the Trade Ambassador concerning the competition with Japan and the industries and U.S. companies that are competitive in Japan.

## STATEMENT OF ROBERT W. GALVIN, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, MOTOROLA, INC., SCHAUMBURG, ILL., ON BEHALF OF THE COALITION FOR INTERNATIONAL TRADE EQUITY [CITE]

Mr. **Galvin**. Thank you, Senator Bentsen. First off, I appear here, sir, today with great pleasure, fundamentally representing my company, informally representing the industry, informally representing the Coalition for International Trade Equity. Though I am the catalyst that put that together, we are not yet ready to present officially the final proposals that we have on matters that are relevant to the question that you just proposed.

I would like to make an informal brief set of observations that I think will be germane to your question. I have already filed a prepared statement and I am not going to even attempt to summarize that document. It is there for the record.

The basic reactions that those of us that are working the high technology marketplace and, in particular, the semiconductor marketplace, have toward this very fundamental inquiry that you are making is that there are needs in our trade laws in order to practice our high technology industries throughout the world and, most particularly, in Japan, because, in general, not in totality, but to a significant marginal degree, our trade laws, we consider, are inadequate because there is no real remedy to certain of the practices that today's modern world cause us to confront, that derive from the cartels and protectionism in the forms that they now exist. But the remedies are less than the benefits that the foreign firms get from taking on some of these nonmarket distortive techniques that they use and that our laws are, frankly, uncertain as to what we might get from them if we were to employ them. And we, therefore, think that they must be made more certain, and therefore, there must be modifications in the laws.

I think that the excellent testimony given by Ambassador Brock helps to introduce that last point because in the exchange that you and he had on the steel issue, and you were inquiring of him if the administration was becoming more protectionist, he said, no, but we just got to a point where enough is enough.

And so, somehow or another, degree became the essence of action or response instead of criteria being the essence of reaction or response.

I respectfully suggest that we must have greater certainty if industrialists who are investors are to know with some reasonable degree of predictability what is the environment, the regulatory environment, under which we are going to have to operate. And therefore, I return to the proposition that there is too much uncertainty with regard to our current laws and that they need to be, to a greater degree, made specific.

I would like to make one other sort of fundamental observation that might be helpful to putting the degree of concern factor into perspective.

In your opening statement, Senator Bentsen, you used an idiom that I cannot recite with precision, but I hope that I will capture the essence of it with accuracy. In describing the nature of the problem, you used an idiom that involved the words "overt control," and I think you used it in relation to the meaning that some countries have overt control of access to their markets. But that was, to me, an unconventional idiom.

And in the definition that is contained in Mr. Brock's statement, he refers to an idiom called "decreased domestic competition." In other words, this is something that the other country does. It arranges through its targeting process to decrease domestic competition.

I respectfully suggest that the vernacular that is more simply understood is protectionism, that the other countries, in their targeting process, those who practice it in its incremental totality, first practice protectionism. And, somehow or another, we are not quite willing in this country to look that one squarely in the face and be sufficiently accusative of those that practice targeting. But the first thing they do is to target to protect their own marketplace.

Now that is extremely significant, not because of whatever may be a temporary effect, but because of the pervasive and extended effects that derive from the fact that they have protected.

And in the semiconductor industry, for example, a reason that the American semiconductor manufacturers have not been competitive in Japan—you used a very important differentiation, sir, when you said that we are competitive worldwide, but not in Japan—is that we were not permitted to invest there in the 1950's, 1960's, and early 1970's. The laws did not allow us to invest. We could not sell many products. Most of our products were under quota.

Yes, we came to the market place and through the multilateral trade negotiations, said, let us get all tariffs out, let us get all regulations out. We must have that. That will ultimately promote free trade. But we are now trying to swim upstream because the Japanese were permitted to affect not only a very modern industry, and they practiced their industrial practices superbly for 20 to 25 years, and now that they are up the stream and used to doing business with each other and they have all their nice, comfortable purchasing arrangements—they are all basically legal, I am sure, but they are all very comfortable buy-sell relationships—now why do they need us? They got there because of protectionism.

But this is part of the targeting process. Targeting is a three-part process. It involves protection at home, subsidies and some degree of setting aside of their various monopoly laws, cartelization being a short-hand way of speaking to that.

So I would wish to emphasize, sir, that in looking at the nature of what we are going to require in order to put more specificity into our laws, the effect of protectionism is lingering. It will be effective in terms of the next 10 years of doing business because, yes, we are responding by making investments there now, but we are 15 or 20 years late in having the privilege of doing business there.

Now, incidentally, there is a differentiation between Japan and Europe. Japan has practiced much more extensive protectionism than the Europeans have. They have let us invest. They have let us compete. Sure, they are trying to subsidize, to some degree, and trying different things to harmonize their industries. But at least they gave us a chance to compete over there. So we are there with a fighting chance to hold our heads high.

So that is quite significant.

My last very brief summary statement and then I will defer to your questions or Mr. Samuel, the effect of this is pervasive, the whole targeting process. Macroeconomic solutions are valuable because they create a better environment for our industrial society, but they are insufficient. Our present laws, as I have indicated, are not sufficiently focused. And I also would ask that you would try to maintain a differentiation between those things that are spoken of under the vernacular of adjustment assistance, which I think is very different than "the targeting process." They are both very important foreign trade policy issues. But targeting is different from adjustment assistance.

I will leave that statement open, sir, to any further inquiry that you would make.

Senator BENTSEN. Thank you, Mr. Galvin. We will print your prepared statement in its entirety in the hearing record. I will get back to you with questions after Mr. Samuel makes his statement.

[The prepared statement of Mr. Galvin, together with an attached chart, follows:]

## PREPARED STATEMENT OF ROBERT W. GALVIN

Mr. Chairman and Members of the Committee, I am pleased to appear before you this morning on behalf of the Coalition for International Trade Equity (CITE). Our Coalition was formed in early 1983 to develop public policy proposals to deal with the market distorting effects of foreign government industrial targeting. We appreciate the opportunity today to present to you a proposed program for combatting this problem.

Before describing our program, let me provide some background on the group and the problems we are concerned about.

CITE is a group of manufacturing companies which are significant participants in a wide variety of industries, including machine tools, robotics, computers, communication equipment, microelectronics, fiber optics, chemicals, biotechnology, aerospace, antifriction bearings, and power generation equipment. All of these industries have been targeted by one or more of our major trading partners for special government attention and support. Our companies share a concern that these targeting programs represent a serious and broad threat to U.S. technological, security and economic leadership in the world. We have come together to highlight the pervasive, far-reaching nature of the problem and to encourage a more coherent and effective U.S. response.

Our members have a strong interest in international markets and free market competition among firms, based on their individual strengths and weaknesses.

Our members also recognize that it is their responsibility as enterprises to meet the challenge of foreign competition that is not distorted by government intervention abroad. However, when U.S. firms face foreign competitors with targeted support from their governments, it may be impossible to overcome the advantages such support engenders. In such cases, the U.S. Government must play a role in neutralizing those advantages.

Targeting is the combining of government mandated or condoned practices like home market protection, subsidies, and cartels which achieves a larger share of world markets in particular industrial sectors. It is distinquished from other forms of industrial policy that do not focus on particular sectors or that only seek to maintain or reduce the role of domestic industries which have lost competitiveness.

Targeting is now being pursued by many countries in industries where the United States has a strong international competitive position. Unfortunately, the U.S. Government has not yet recognized how widespread such practices are and therefore not systematically documented their scope or the implications for our economy. We must rely on other sources to assess the magnitude of the problem.

A number of U.S. firms and industries have invested substantial effort in such documentation. The Aerospace Industries Association recently did a study on the effects of European targeting on U.S. producers. The study found that through a combination of directed national airline procurements, extensive subsidies for research, production, and exports, and governmental ownership and allocation of manufacturing activities, the European industry has succeeded in taking one-fourth of the total world market from U.S. firms. One major U.S. producer has terminated commercial production.

Two leading American machine tool/robotics firms have documented Japanese targeting of these industries. Once again they found that government home market protection, large subsidies, and organization of domestic producers led to a significant erosion of U.S. production base. In fact, U.S. producers have been relegated to a minority position in the U.S. market, compared with a position as a strong net exporter only a decade ago.

The Semiconductor Industry Association has studied the targeting program by Japan. In a report published earlier this year, it reported Japanese Government efforts to protect the home market, provide extensive subsidies, and organize domestic research, development, and production. It documented the devasting results for U.S. dynamic memory producers, who have seen their share of the world market fall from 95% to less than 40% in less than 10 years. More than half of the U.S. producers have stopped producing the most advanced generation product and those who remain in the business have experienced losses of a magnitude that may discourage further participation in this business.

The Communications Division of the Electronics Industries Association has begun to accumulate evidence on Japanese targeting in the telecommunication equipment sector. In an interim report to the USITC last month, EIA's John Sodolski reported the same pattern of protection, subsidization, and market organization found in semiconductors. In this case the results are not yet as serious, but the potential for damage is evident in Japan's doubling of exports to the United States in the last two years and the significant liberalization of the U.S. market that will result from AT&T's divestiture. It should be noted that Japan is not alone in targeting this sector and that a number of European countries have used similar techniques to achieve a larger share of world markets.

Japanese targeting of the computer industry has also been documented in a variety of sources. In this case, the distortive effects are only beginning to find their way into world markets, but the threat to U.S. firms is clear and imminent. The computer industry is probably the most widely targeted of all industries with programs established in France, Germany, the U.K., Brazil, and Mexico.

Rather than submerge the Committee in further details, I am submitting for the record a summary chart CITE has prepared on industries we have identified as targeted by one or more of our trading partners. I will also provide a set of the documents referred to in my above testimony.

The adverse effects for the United States of earlier foreign targeting efforts are already evident in the serious erosion of U.S. jobs, world market shares and financial performance in many advanced sectors of vital importance to the United States, including robotics, machine tools, semiconductors, telecommunications equipment, and aircraft. This erosion can be expected to continue in these sectors and spread to others (including sectors that are not targeted directly but depend critically upon technology developed elsewhere in the U.S. economy) unless U.S. public policy begins to recognize and deal effectively with the problems. The industries targeted by other nations include most of the advanced sectors that generate new jobs for the economy, constitute our national technology and security base, and provide the impetus for the future productivity and international competitiveness of the U.S. economy.

It is the view of the Coalition that the current U.S. policy must be changed to provide a vigorous response to the efforts of foreign governments to promote their industries, if the United States is to avoid becoming a second-rate industrial, technological and military power.

The Coalition also believes that efforts to emulate the directive industrial policies of other nations are inconsistent with our economic and political values and probably would not be feasible in any event. We run the risk of creating greater distortions to our economy than would otherwise occur through such approaches.

Finally, our group feels that under existing circumstances the United States cannot succeed in persuading other countries to discontinue or curtail their targeting efforts. We strongly favor continuing negotiations, particularly at the bilateral level, but feel that such efforts will only succeed when the United States has defined and implemented its own national policy response to the problem.

The Coalition believes that an effective U.S. public policy response must have two major thrusts. First, it must provide an improved business environment for research and investment and second, it must provide a focused response to particular sectors.

## Business Environment

A major element of the U.S. response must be creating an improved business environment -- one which will provide stronger incentives for research and investment. Under this broad objective, the Coalition supports efforts to:

1) increase U.S. scientific and technical workforce through education;
2) remove antitrust barriers to cooperative research;
3) provide additional tax incentives for corporate R&D and capital investment;
4) increase government R&D funding for commercially oriented research programs;
5) provide better protection for intellectual property rights;
6) use tax policy to increase availability and lower cost of risk and venture capital;
7) assure that U.S. technology is adequately protected from our adversaries without unnecessarily impairing the competitiveness of U.S. firms;

8) increase U.S. export competitiveness by removing or liberalizing self-imposed government disincentives and assuring U.S. tax policy does not disadvantage exports;

9) reduce interest rates; and

10) achieve more realistic currency exchange rates.

There is little question that progress in these areas will enhance the ability of U.S. firms to meet the challenge of foreign industrial targeting. Yet, general domestic policy improvements do not provide a sufficient answer to this challenge. Certain additional policies, focused on the targeted sectors, are also required.

## A Focused Response

The second major element of a U.S. public policy response is the development of a U.S. Government capability to provide effective focused responses. The major components of that capability include:

1) Monitoring, analyzing and publicly reporting on foreign industrial/targeting policies and their effects on U.S. competitiveness sector by sector.

2) Supporting U.S. exports through programs designed to counter effectively foreign government support to targeted industries.

3) Negotiating to achieve greater U.S. participation in foreign markets, with products that are being targeted accorded the highest priority.

4) Giving the highest priority to preventing the effects of foreign market-distorting practices from injuring U.S. industries in the U.S. market through vigorous use of existing U.S. trade laws and updating of those laws to be fully effective.

5) Mobilizing domestic policy to deal with particularly serious competition problems caused by foreign targeting practices where national security interests are affected.

Careful monitoring on a sectoral basis is critical. The U.S. Government must have facts and sound analysis on which to base its own actions. It must know what other governments have done, are doing, and plan to do in great detail. It should publicly identify on a regular basis the countries and sectors where foreign government efforts have distorted or may distort international competition with injurious effects to U.S. firms and workers. It should undertake intensified monitoring efforts where the potential for injurious effects is determined and should provide a mechanism for activating the appropriate form of response when such effects are detected.

Because injurious effects of foreign targeting can occur outside and inside the United States, it is essential that U.S. public policy be flexible enough to deal with both aspects.

Where the effects are felt in U.S. export markets, the U.S. Government should have an affirmative responsibility to provide whatever support is needed to offset the distortive effect of foreign government support. First, this would require an Export-Import Bank that is authorized and budgeted to match routinely export credit subsidies by other governments in the designated sectors. It may also require additional bank authority and budget to provide additional support to offset other distortive advantages. We recognize that this represents a substantial resource commitment at a time of large budget deficits but feel there are compelling reasons for providing such support. Second, it will involve assigning the highest priority to targeted products in international negotiations to achieving greater U.S. access to foreign markets. There should be particular emphasis on improved access to the markets of competitor countries utilizing targeting policies.

Where the effects are felt in the U.S. domestic market, the U.S. Government should have an affirmative responsibility to use U.S. trade laws to impose import duties (or their equivalent) in an amount sufficient to eliminate the injurious, distortive effects of foreign government targeting. We think this objective can be fully effected only by revising U.S. trade laws to make actionable all distortive targeting practices. The key concepts that should be embodied include an injury test that recognizes damages caused by reducing the U.S. share of global markets and discouraging adequate investment and research; imposing of duties that fully offset the market-distorting benefits of all targeting practices for as long as the effects of those practices continue to distort competition; provision for recovery of past damages; and using duties collected to restore competitiveness of damaged businesses.

In some cases where foreign targeting has fundamentally altered internationally competitive positions, it may be necessary to go further. The Coalition feels this should be done where national security interests are involved and other actions will be insufficient to restore the competitive position of a U.S. industry. Under these circumstances, the U.S. Government should be prepared to mobilize domestic policy support for an industry. This support should be part of a coherent strategy which should include such actions as selective direct funding, more liberal tax treatment, and regulatory relief. The President should be empowered by statute to take such actions only where certain carefully defined conditions are met.

## Conclusion

No single action or piece of legislation can adequately respond to the challenge of foreign industrial policy. A series of bills and administrative actions are needed to develop an effective U.S. public policy response. The challenge is complex and has such varied impact from sector to sector that a broad and flexible system is needed. At the same time, the effects of that system must be reasonably predictable and certain if it is to have a constructive impact on business research and investment.

Mr. Chairman, I am submitting with my testimony a copy of CITE's general position paper on foreign targeting. We are now beginning to prepare more detailed legislative proposals to implement our proposed program. Our first effort is in the area of trade law reform. We hope that Congress will seriously consider these proposals as it deliberates on how to respond to this serious national problem.

Attachment

CHART I

## INDUSTRIES TARGETED BY MAJOR U.S. TRADING PARTNERS

| Country | Targeted Industries |
|---|---|
| Japan | Computers, microelectronics, electronic instruments, lasers, optical communication, communication instruments, biotechnology, nuclear fusion, robotics, aerospace, telecommunications, anti-friction bearings and machine tools. |
| France | Computers, microelectronics, electronic office equipment, biotechnology, robotics, consumer electronics, energy conservation equipment, underwater exploration equipment, aerospace, telecommunications and machine tools. |
| U.K. | Computers and microelectronics. |
| Germany | Computers, microelectronics and electronic office equipment. |
| Canada | Electronic office equipment, oil, gas and petrochemicals. |
| Brazil | Computers, aerospace and petrochemicals. |
| South Korea | Machine tools and automobiles. |
| Mexico | Autos, computers and petrochemicals. |

Source: Derived primarily from Technology and Trade Policy by Jack Baranson and Harold Malmgren, a report prepared for the U.S. Government in October 1981.

Senator BENTSEN. Mr. Samuel, you are accompanied by Mr. Brian Turner; is that correct, for the record?

Mr. SAMUEL. Yes. Mr. Turner is on my left, Mr. Vice Chairman. He is the director of legislation and economic policy for the Industrial Union Department.

With your permission, I would like to submit my prepared statement in full for the record and address myself to a much briefer summary.

Senator BENTSEN. It will be.

## STATEMENT OF HOWARD D. SAMUEL, PRESIDENT, INDUSTRIAL UNION DEPARTMENT, AFL–CIO, AND COCHAIRMAN, LABOR-INDUSTRY COALITION FOR INTERNATIONAL TRADE, ACCOMPANIED BY BRIAN TURNER, DIRECTOR, LEGISLATION AND ECONOMIC POLICY, INDUSTRIAL UNION DEPARTMENT

Mr. SAMUEL. I am testifying today on behalf of two organizations, one the Industrial Union Department, which is a semiautonomous group of 58 AFL–CIO unions, most of which are deeply concerned with the effects of international trade on their members, jobs, and lives. I am also testifying indirectly on behalf of the Labor-Industry Coalition on International Trade, known as LICIT, which is a group of 8 corporations and 10 unions working together to find sensible responses to the challenge of international trade.

Both the IUD and LICIT are fully aware of the greater importance that trade plays on our Nation's economic posture. We are aware that about a fifth of our manufactured products are sold abroad, as is about one-third of our agricultural production. However, we are also aware that there is another side of the trade equation which has had serious consequences for our well-being. On a macro basis, our recent history of trade deficits has cost us income and jobs. On a micro basis, the surge of imports into many key industries has brought serious disruption.

We know that international trade is an inevitable part of the U.S. economy and we know that it has brought much benefit. But anyone who does not recognize that international trade has also brought disruption and dislocation is blind to the realities of economic life today.

One of the causes of this disruption and dislocation, we are convinced, is the gap between the industrial policies of the United States and of our major trading partners. Too often, we have found the exports of other countries have benefited from national assistance programs which are unknown here, various incentives for R&D, low interest loans and other financial support, protected domestic markets, export support, and much more. Too often, Senator, U.S. companies are not competing with foreign companies, but with foreign governments.

In a recent report, LICIT examined this industrial policy gap at some length and determined that the so-called targeting policies of other countries posed an increasing threat to the continued stability and even existence of a wide variety of our industrial sectors. This threat, contrary to some opinion, is not only aimed at the older, more traditional industries, but at the newer, so-called high-tech sector as well. No industry is immune.

It was not the intention of the LICIT study to get involved in the current national debate over industrial strategies. However, LICIT did achieve a consensus in recommending a number of reforms in our trade laws, to make them more effective by improving the speed of their response, by making the causation test less burdensome, by assuring effective remedies when it is determined that relief is warranted, and by extending their reach to third-country markets.

LICIT also agreed that labor and business should join Government representatives to review possible measures for strengthening U.S. industries on a sectoral basis.

In recent years, the Industrial Union Department, as part of an AFL–CIO effort, has also studied the problems resulting from the gap between industrial policies in other countries and our own. We, too, agree that tripartite consideration of the problems, on a sectoral basis, could play a vital role in the effort to strengthen our industrial base. We have become convinced, in addition, that other, more far-reaching measures are also necessary. We are fully aware that the basic structure of our economy is established through our macrofiscal and monetary and other national policies. But we have come to believe that many of our macroinstruments—tax policy, regulatory policy, antitrust policy, capital investment opportunities and trade practices—must also be applied on a targeted basis in order to provide the conditions under which American industry can compete in the world market.

In short, we must take the steps necessary to level off the global playing field on which American business competes.

The Industrial Union Department, acting on behalf of the AFL–CIO, is in the final stages of developing a comprehensive approach to such a program. We believe that structures should be provided to enable business, labor, and Government to work together, systematically and continually, in behalf of our economic well-being. These structures should include activities both at the national level and at the regional and sectoral level.

Those involved in this activity should have a wide range of instruments—tax, trade, financial, others—to carry out agreed upon goals. It would be understood that when programs are developed for particular industries, assurances would be required that incentives and benefits would be utilized in a way to achieve the agreed upon results.

It would also be understood that we cannot indulge in a game of picking winners and losers. Each sector would be examined in the light of its ability to improve its competitiveness and the role it can play in our dometic economy and in the world economic arena.

Both the IUD and LICIT are thoroughly convinced that the United States is in the international market place for keeps. There is no room for economic isolationism, as we prepare to enter the 21st century. But we are also convinced that a hands-off policy by government could be disastrous, especially in a world where government plays an active role in our trading partners.

The free market has an important role to play in determining our economic future. But so does the merged efforts of government, business, and labor. I hope that in these hearings, Senator, you are able to put aside the cliches of the past and develop more viable guidelines for future action in the hard light of current reality.

Senator **Bentsen**. Thank you very much, Mr. Samuel.

[The prepared statement of Mr. Samuel follows:]

## PREPARED STATEMENT OF HOWARD D. SAMUEL

Good morning, Mr. Chairman and Members of the Committee. My name is Howard D. Samuel, and I am President of the Industrial Union Department of the AFL-CIO. We are pleased to have this opportunity to testify before your Subcommittee on Economic Goals and Intergovernmental Policies regarding a subject which has assumed a prominent place on labor's list of concerns.

Union members, their families and communities have suffered greatly from the perpetuation of the myth of widespread "free trade" and from our government's failure to come to grips with the different realities of today's international markets. We welcome this hearing as one of a number of recent occasions where Congress has stepped into the trade arena to take stock of the nation's position vis-a-vis our trading partners and to explore solutions. It is our hope this scrutiny will result in the formulation of a comprehensive trade bill and the development of a broader industrial policy agenda.

Because of the IUD's vital interest in tackling the trade issue, we joined ten industrial unions and eight major corporations in 1979 to form the Labor-Industry Coalition on International Trade (LICIT).

As a voluntary association of industrial unions and corporations representing a broad spectrum of American industry, LICIT seeks to represent the areas of common interest of American workers and American business in promoting increased, balanced and equitable trade among all countries.

We became interested in the subject of the international trade impacts of industrial policies as an outgrowth of our concern with more specialized trade policy issues: investment export performance requirements and international competition utilizing officially supported export credits. In analyzing these government measures, we realized that export requirements or official export credit support were imposed or provided on a selective basis, not across all sectors. Quite often, these measures were only part of a broader package of policies governments had in place to promote a particular industrial sector. LICIT decided to examine the range of industrial policies in other countries and their significance for patterns of international trade and investment in general, and for the competitive position of American industry and jobs in particular.

The product of the LICIT investigation, a study entitled International Trade, Industrial Policies, and the Future of American Industry and published in the spring of this year, has generated enormous public interest. The report analyzes the implications for American industry, in an interdependent world economy, in what we see as the growing gap between the industrial policies and supportive economic programs of other countries and those in the United States. It provides an initial base of facts and analysis of the competitive disadvantages many American producers operate against because of these differences in economic approach toward industrial activity in this country and overseas.

Why is this "industrial policy gap" an important issue? Two major reasons explain its importance: the increasing trade and economic interdependence of the United States with the international economy, and the loss of America's industrial preeminence and the convergence of major industrial economies.

These economic changes have brought the issue of industrial policies to the forefront of the debate on international economic policy, the relevancy of the GATT, and the future direction of the world economy. Indeed, the success of the GATT, by reducing tariffs and encouraging the integration of domestic economies through world trade, has made apparent to many American firms and workers the significance and importance of what our report refers to as the "industrial policy gap."

It is the gap between other countries' industrial policies and the absence of comparable U.S. policies which, in an increasingly interdependent economic context, define the issues addressed in the LICIT study.

The recent concern with the competitive implications of other countries' industrial policies arises out of a fundamental concern about the future of industrial production and employment in the United States. No longer do Americans take our international industrial preeminence for granted. In steel, automobiles, machine tools and consumer electronics, that unchallenged preeminence has been lost: at the same time it is coming under heavy challenge in such areas as semiconductors, telecommunications and commercial aircraft. In the next few years, the same will likely be the case for computers and aerospace.

The number of manufacturing sectors which are the object of industrial policy measures has increased greatly in the past ten years. Foreign industrial policies are directed not only toward more traditional and basic industries like steel, shipbuilding, textiles, apparel and footwear. They are also being directed in many countries to the promotion of industries such as aircraft, semiconductors, computers, robotics, automobiles, fiber optics, machine tools, heavy machinery and large electrical generating and transmission equipment.

Industrial policies are thus used to both strengthen and restructure industries faced with slower growth as well as to "target" new industries for future growth and expanding world market shares. These policies are being implemented today in both developed countries (e.g., Japan, France, West Germany, Canada and Sweden) and the newly industrializing countries (e.g., Mexico, Brazil, South Korea and India).

It is not only the increasing use and scope of these industrial policies that make them a matter of great concern. Their effects are also felt more intensely because of the reduction of more visible trade barriers at the border, accomplished through years of GATT negotiations, and because of the rapidly increasing foreign trade dependence of the U.S. economy. In addition, continued slow growth in the world economy and an overvalued dollar in recent years have increased the competitive pressures of these policies on American business and workers.

The urgent need for a national dialogue on industrial policies and international trade arises from the relatively unique position of the United States as the only major industrial country that does not pursue conscious industrial policies for civilian manufacturing industries, although U.S. agriculture and military/space-related industries have derived substantial competitive advantages from their particular varieties of American industrial policy.

Industrial policies are measures used by governments to restructure, strengthen or promote the development of specific domestic industries. In the context of a market economy, industrial policies affect the behavior of firms with respect to specific industrial objectives by influencing the operating conditions of companies or the potential risk or profitability of investments. Industrial policy measures are intended to improve the long-term performance (productivity and competitiveness) of domestic industries with respect to national goals and international competition. They can be distinguished from macroeconomic policies (both fiscal and monetary) designed to primarily address problems of unemployment and inflation.

Since April there has been considerable debate in this country -- and this hearing is an important part of that debate — on the issue of industrial policy and whether the United States should have an industrial policy. The LICIT report does not directly address this question. Our study was primarily concerned with presenting the consequences for American industrial production and employment of what we consider to be fundamental differences in the approach of our government toward industry and the industrial policies of many foreign governments.

The LICIT report did put forward, however, a number of trade-related recommendations which call for better implementation of U.S. trade laws and improvements in some of the provisions and coverage of those laws. The study also recommends the necessity of looking at trade actions in conjunction with domestic economic policies aimed at improving the vitality and international competitiveness of American industries.

LICIT recommends that existing U.S. trade laws—antidumping and countervailing duty laws, Section 301, escape clause (Section 201) actions--be improved along the following lines:

1. Timely relief or remedy — The trade remedy laws should provide for a timely response or at least, a preliminary action to prevent additional injury from occurring during lengthy legal determinations:

2. Less burdensome causation test — In many cases, the burden of proof on the part of a U.S. firm or union is very difficult to fulfill and more reasonable standards for action should be established (this is especially true for escape clause proceedings where the U.S. causation test is more stringent than the international standard in the GATT);

3. Certainty of relief or remedy — If an affirmative determination is reached by the U.S. Government concerning a petition for action under our trade laws, there should be a predictability that action will be taken to eliminate the disadvantages confronting U.S. producers, either by changing foreign practices, where possible, or by fully offsetting the effects of unfair practices in this country;

4. Effectiveness of relief or remedy — In order to ensure certainty of relief or remedy, the range of possible actions or responses available to the Executive Branch should be expanded so that discretion can be employed with respect to the choice of remedy or relief, but discretion should not be available for the provision of fully effective relief or remedy when an affirmative determination is reached; and

5. Reciprocity and third-market effects — U.S. unfair trade practice laws should be made more effective in dealing with trade problems U.S. producers face because of unfair trade practices of government-assisted foreign firms in the home market of the country concerned or in third-country export markets.

We believe that these criteria should be used as a basis for improving existing U.S. trade laws, especially the escape clause procedure (Section 201), the antidumping and countervailing duty laws, and the general unfair trade practice provision (Section 301).

Such changes in U.S. trade laws can be effective in dealing with a range of unfair or disruptive foreign trade practices.

I must note that the members of LICIT have also concluded — as has the Industrial Union Department — that implementation of U.S. trade actions is not a wholly adequate response to the industrial policy competition of other governments. Other countries are unlikely to limit their industrial policy measures under the discipline of internationally agreed rules in the foreseeable future. Efforts to offset the industrial policy-derived advantages of our foreign competitors within the U.S. market will, in practice, be limited in extent and effectivness.

Therefore we recommend that labor and industry representatives from various industrial sectors work together with government officials to review possible measures for strengthening U.S. industries.

The Industrial Union Department wholly endorses this notion of tripartite planning to strengthen our industrial base. However, in conjunction with the AFL-CIO, the IUD has moved much further along than LICIT in developing the elements of what such an industrial policy should have.

The high unemployment rates which rock this nation and the staggering inroads which imports continue to make in our domestic markets have created a sense of great urgency among our union affiliates for a national industrial policy.

The civilian unemployment rate, which had averaged 4.8 percent in the 1960s, rose to 6.2 percent in the 1970s. In the 1980s, unemployment, beset by recessions, has risen to above 7 percent in 1980 and 1981, and 9.7 percent in 1982. In December, the peak rate of 10.8 percent was reached, and it is still 10 percent, with over 11 million unemployed, another 1.7 million that became discouraged and stopped seeking work, and nearly 6 million that are working part time.

The bulk of the increased unemployment has been in the manufacturing sector. Between the beginning of the 1981-82 recession in July 1981 and December 1982, there was a loss of 2.8 million jobs in the economy and more than 6 out of 8 jobs lost, almost 2.2 million, was a loss of manufacturing jobs. In the economic upturn during the first five months of this year, almost 800,000 jobs were regained, but only 3 out of 8 were in manufacturing.

This experience points to the long-term nature of the decline of American manufacturing, particularly in basic manufacturing industries, such as steel, auto, tire, and machine tool manufacturing. Between 1973 and April 1983, there has been about a one-third decrease in the number of people employed in these basic manufacturing industries representing the loss of about 660,000 jobs.

That helps to explain the smokeless smokestacks and empty plants in Birmingham, Baltimore, Akron, Gary, Detroit, Buffalo, Cleveland, Chattanooga, Pittsburgh, and other industrial centers. The job losses have been concentrated in the areas in which the manufacturing plants have been located.

Before 1960 manufactured imports were insignificant in most American industries. In 1960, for example, imports of shoes, apparel, steel, autos, major consumer electronics products, and machine tools represented 6 percent or less of total U.S. consumption. Now imports have taken a large and growing share of our market in these and other industries:

Import Share of the U.S. Market

| | 1960 | 1982 |
|---|---|---|
| Shoes | 2% | 60% |
| Steel | 4 | 23 |
| Autos | 4 | 28 |
| Apparel | 7.5 | 41 |
| Consumer electronics | 6 | 95 |
| Machine tools | 6 | 27 |

As auto imports have taken over a significant portion of the U.S. auto market, they have also taken over part of the tire market, as each imported vehicle comes in with five tires.

The balance needle of import penetration has steadily crept forward, starting at first with the most basic, labor-intensive products in the late 1950s, through basic industries in the 1960s and 1970s, and now reaching into the full range of the most advanced technology-intensive products, from computer chips to huge jet aircraft. As I have previously discussed, a disturbingly large share of these imports benefit from foreign unfair trade practices, foreign targeting of industries, and an overvalued American dollar.

It is time we develop a national industrial policy which will deal directly and comprehensively with these many problems. Such a policy would be a necessary complement to effective overall fiscal, monetary and anti-inflation policies.

In place of general across-the-board tax cuts and accelerated depreciation, we need a new targeted reindustrialization policy. To that end, the IUD and AFL-CIO have proposed the creation of a tripartite National Industrial Policy Board---including representatives of labor, business, and government -- which would identify industries that are vital to national economic growth and employment and should be assisted through targeted policies. Geographic areas with unused capacity and high unemployment would also be favored. The Board would be assisted by tripartite industry and regional committees which would analyze data and formulate proposals affecting individual industrial sectors or geographical regions.

The Board's clear mandate would be to help ensure the revitalization of the nation's sick industries and decaying communities, while at the same time to encourage our emerging industries with promise for the future.

To carry out its task, the Board would be empowered to consider a wide array of measures from which it might fashion an appropriate development plan for an industry or region which seeks its aid. The specific financial tool(s) to be used would depend on the needs of each case and on the joint commitments extended by the participants in the plan.

Among the potential sources of assistance, we believe there is a need for a National Development Bank. The bank would be authorized to make and guarantee loans to finance approved reindustrialization ventures to private business and to state and local governments. Private pension funds should be permitted and encouraged to make investments in such financing arrangements to support and expand industrial employment in the United States. The Board would provide policy guidance for the bank and set its priorities as a financing agency.

The Board would also participate with federal agencies in considering a wide spectrum of other forms of targeted assistance, including targeted tax provisions, special trade actions, research and development support, and anti-trust and other regulatory matters. It may also be appropriate in certain situations for the Board to make recommendations toward future changes in law and policy needed to strengthen America's industrial base.

For example, I would suggest that the passage of the Fair Practices in Automotive Products Act, S. 707 (HR. 1234) would be one vital piece of an industrial policy plan for our domestic auto industry. This trade action, however, should be supplemented by other measures that assure growth in the technological and productive capacity of domestic car producers and their linkage industries , such as steel, glass and rubber.

Finally, the IUD/AFL-CIO reindustrialization program does not envision a free ride for those who would seek governmental assistance. To qualify for special targeted treatment, recipients would have to make reasonable demonstrations that the aid would be used to finance net increases in domestic investment and would be compatible with the local areas' development plans and needs. Programs must be designed to develop human resources and to minimize displacement of workers. Reindustrialization plans developed through this tripartite process would also emphasize a healthy workplace and a clean environment, non-discrimination for women and minorities and observance of federal labor laws. All participants in the planning process would be called upon to commit themselves to making the revitalization program work.

Reference to the steel industry is particularly appropriate here.

When Jimmy Carter became President seven years ago, there were 46 large, ore-based steel mills operating in the U.S. capable of producing 145 million tons of raw steel a year. During the Carter years, six of them were closed. Under the current administration, nine have been closed permanently. Two others have been closed for a year. More may close soon, leaving our country dangerously dependent on foreign steel producers.

Now, only several months after the United Steelworkers' union granted major wage concessions to the steel industry yielding nearly $3 billion in savings, U.S. Steel, the largest American steelmaker, has entered into a deal with British Steel Corporation to purchase semi-finished steel "slabs," thereby assuring the shutdown of the company's steel-making facilities at the Fairless Hills plant in Pennsylvania and the loss of at least 3,000 jobs.

With an industrial policy mechanism in place, this tragic development could probably have been avoided. First, the fact that British Steel Corporation is government-owned and highly subsidized (as high as 20.33 percent of the price of imported British steel), would have been offset by our own industrial plan which targeted domestic steel development. Further, the Board's recommendation for remedial trade relief would have swiftly countered any unfair trade practices by British Steel. Finally, any union concessions and/or government assistance to U.S. Steel including temporary import protection, would be tied to the corporation's commitment to modernize its existing U.S. facilities and to foster a break from dependence on foreign imports. Unlike past experience, U.S. Steel would not be permitted to use the savings gleaned from governmental programs to purchase Marathon Oil.

In conclusion, let me note that this country is still the greatest economic productive power on earth, although the U.S. lead is decreasing. The country must begin to sort out national priorities and channel resources into areas that will modernize private and public facilities and restore the national economy to a condition of stable growth. Failing to follow a course to achieve these objectives, the country will continue to lag in productivity growth and international trade: it will continue to leave significant portions of its human and machine resources idle for extended periods of time: it will continue to suffer a reduction in the standard of living of its people. It is important that America as a whole remain a diversified industrial nation, and this can best be accomplished through the active participation of government, labor, and industry in a major reindustrialization effort.

Senator **Bentsen**. You have both provided me chapter and verse on the problems of targeting and I certainly share the concerns with it that you have. It is quite obvious that you do not agree that the trade laws are satisfactory and adequate and that changes are going to have to be made. But let me share a concern with you.

I think of the years that we have argued with the European Common Market over agriculture subsidies. And I think of the years that we have argued with Japan over protectionism—I will use that term instead of overt controls. And then I listen to Mr. Brock talk about continued negotiations. I get very concerned and pessimistic about any serious breakthroughs in those negotiations.

What do you think we have to do? What would you suggest that we do in trying to apply more pressure to help our trading partners understand how serious we view the targeting issue in this country? Do we have to put up barriers in return where they are targeting our industries? Do we have to do a quid pro quo, a tit for tat?

What would you suggest we do?

Mr. **Samuel**. Well, my reply may not please you, Senator, but I would suggest that the current effort of the House of Representatives, and I hope eventually the Senate, to pass the local auto content bill is the kind of thing that we should be doing. And it seems to me that it has already paid off, even though it has not become law. That until the Japanese are convinced that we are serious in our efforts to achieve an open market in Japan, and they have not been convinced of that, despite some 10 years of negotiations of the kind that the Mr. Brock described earlier, they are not going to take the steps that are necessary.

The steps so far have been insufficient, inadequate, not particularly productive of basic change in our trading relationship, and it seems to me that only by actions such as the passage of a local auto content bill will they be convinced that the United States is serious, that we do believe in free trade and insist that others practice it along with us.

Senator **Bentsen**. Mr. Galvin.

Mr. **Galvin**. My comments are as follows, sir. First off, the very fact that the issue has now been raised to the level of consciousness and attention that you and others are devoting to it is the beginning of a hopeful set of circumstances. And out of that will derive an understanding, a definition, for example, of this issue of targeting and its component parts.

Knowing that, if we will first establish a more thorough process of monitoring what is going on—the reference that you make to the fact that we have known of or have dealt with this issue over years or decades is, to a substantial degree, a function of knowledgeable people informally being knowledgeable about the issue.

I think the Government must have a more formal monitoring program to know what is going on in the critical areas related to targeting.

Simultaneously, we do not give up some of the other things that you gentlemen were talking about earlier this morning—supporting exports, continuing the negotiation process.

But then we have to make many of our laws more specific. For example, the antidumping laws and the countervailing duty laws are very difficult for those of us who would use them to use them. Most companies that look at it say that it is so laborious, it is so uncertain as to what will occur if we were to have a reasonable argument, it is not worth the effort, the time, and the money. It takes, really, in our case, a fairly large company like ourselves to risk going about the use of the process.

The process, if it is a good one, ought to be usable by Mr. and Mrs. Average Industrialist in this country. And it is not.

We just won a dumping case, but we spent an inordinate amount of funds and when we got all through, all we have is, in effect, a modest tariff barrier, but we do not get any damages out of it. There really is not an effect on the perpetrating party that is particularly significant compared to what the damage was done.

And what about this issue of injury? There is almost a perception that if, somehow or other, we can still receive our paychecks at the end of the week, having gone through what, allegedly, was a distortion in the marketplace, we have not been injured.

In my estimation, if we have lost a share of market, if a competitor has been strengthened because they have engaged in a cartel or they have been subsidized or they have been protected, we are injured. If we lose some bit of business because of a distortion in the marketplace, why cannot the American law stand up for the American?

The 301 section of our legislation is too permissive. We think that this is a Government of laws. The Congress legislates, determines what the regulatory policy of this country should be, and it should specify more particularly to the administration with certainty what it should do when it sees these distortions in the marketplace.

The reason all we generally have been able to do about this in the past is talk is that is about all that the legislation has really encouraged to be the fact. It has been too hard to use what laws were there and the laws did not really specify criteria of action. And I think the administrations, whoever they may be, Democrat or Republican or whatever person is the President of the United States, needs to have some direction as to what the criteria of action are and they should be obliged to take a great deal more action as a function of what is specified.

And, incidentally, in that regard, our coalition, which, and we respect the fine work being done by the labor-industry coalition, is going to be bringing forth very specific provisions on 301 provisions on the countervailing duties, et cetera, for your committee and others of the Congress to look at.

We will be doing that fairly promptly, sir, in the next couple of months.

Senator BENTSEN. Mr. Samuel, you said it is not just some of the declining industries that are being targeted. The report I mentioned earlier from the U.S. Department of Commerce talks about the specific industries and the specific countries that are doing it. It shows that the Japanese, the French, and the West Germans have targeted computers. On microelectronics, again, the Japanese, the French, and the West Germans. Electronic instruments, the Japanese. Lasers, the Japanese. Optical communication, the Japanese. Electronic office equipment, the French and the West Germans. Biotechnology, the Japanese and the French. Robots, the Japanese and the French. Energy conservation equipment, the French. Underwater exploration equipment, the

French. Aerospace, Japan and France. Telecommunications, Japan and France.

And when you talk about protectionism in telecommunications, the Japanese are really out in the forefront in that regard.

But let me review some of the problems that we run into in dealing with such targeting. You listened to Ambassador Brock talking about the fact that we, in turn, do some targeting, too. You have documented dramatically some of the industries that are hurt by foreign targeting and the impact that has had on unemployment in this country. I certainly share those concerns. But then when you listen to Ambassador Brock say, "Well, we do some targeting, too." How would you answer other countries who say, "Well, you are spending multimillions of dollars on R&D for aircraft electronics for the military, for the Air Force, and that spills off over into your aircraft manufacturing."

How do you answer that charge or that criticism?

Mr. **Samuel.** Well, I think there are a couple of answers. First of all, I think my brief answer would be that we are far more sinned against than sinning. And once we reach a stage of equilibrium, then I will be glad to enter into a dialog.

I would suggest that the investment, research investment, made by the defense and the aerospace industries in our country, have to a certain extent, spilled over and produced some research and development products for private industry, but to a much lesser extent, particularly commensurate with the amount that was spent.

Senator **Bentsen.** Yes, and in addition, by the time defense spillover gets to our private industry, does it not become public property that in turn is available to a lot of other countries?

Mr. **Samuel.** Well, I think that Mr. Galvin probably could reply to this more expertly than I can, but I think that some of the products that have emerged from space and defense have been adaptations made by private industry which, I guess, become private property.

But, certainly, according to the amount of money we have spent for defense and space research, it has not produced anywhere near that amount of innovations and inventions. We get relatively small production, private production, from that research money, certainly, compared with the kind of R&D support given by our foreign competitors, which goes directly into supporting industrial innovation.

Senator **Bentsen.** Mr. Galvin.

Mr. **Galvin.** I find myself very comfortably in agreement with Mr. Samuel's comment and let me just be specific with regard to a particular.

The very high speed integrated circuit program, the VHSIC program, is commented on by those who will speak to the fact that there is extensive U.S. support of technology. This is an important program for our country. It is obviously orchestrated by our Defense Department. It has a very particular national defense purpose as its primary motivation.

We have appraised this program and we are participants in the VHSIC program. And it is our estimation, and you can quarrel about a 5-percent number if you want, that about 15 percent of the value of the VHSIC program may have some relevance to the commercial marketplaces for the semiconductor industry. About 85 percent—and if you want to pick 80 or something—the very, very vast majority of the program is so specifically required to accomplish defense needs that only a very small minority of the value of that is commercially targeted.

Clearly, the United States has assumed, and rightfully so, I believe, the principal defense of the free world. And so it is expected that we shall have a very extensive research and development program in the interest of the free world that includes all of these good countries up here. And that is what most of that money is being used to do a good job for them and for ourselves.

A minority of these come to the benefit of the commercial marketplace. Essentially all of the research and development funds that would be compared to ours that are being generated in the other countries are focused exclusively or almost exclusively for commercial market exploitation.

Senator **Bentsen**. Let me raise another aspect of this targeting issue where domestic equity considerations may be in conflict with the national objectives of this country.

What we are really looking to is economic equity in this question of targeting. And there is no question but what it has given our foreign competitors an unfair advantage over domestic firms. It costs us jobs and it costs us income. But let us take a look at Brazil and Mexico. There, you have two countries that have really done some targeting. Mexico has been a very protectionist nation, resorting to licensing and all the rest of it. But, it must export to pay its debts and build living standards.

How do you handle that kind of a trade-off when you try and deal in trade remedies against targeting by them, as opposed to targeting by a country like Japan or some of the countries of the European Common Market? How would you—or should you—differentiate between them? You have Mexico, with 73 million people right here on our border, a country in serious economic difficulties, desperately trying to increase its exports to try to meet its world obligations.

How do you handle that one?

Mr. **Samuel**. That is a difficult question, Senator. I guess one of our responses would be to recognize that Mexico and Brazil, and perhaps less so some of the other newly industrialized countries, are in very grave economic trouble and we cannot put them in exactly the same position as we do the European Community or Japan.

Nevertheless, I think that for two long, the United States, and OECD, generally, has tended to regard those countries, as well as the newly industrialized countries of the Far East, as economically backward, economically disadvantaged, to an extent to which they certainly are not. And I think we are going to, we should take steps to actively discourage some of the protectionist tendencies of those countries, particularly the performance requirements, the contest requirements in Brazil, the performance requirements, including the auto decree in Mexico, which produced perhaps some benefit for those countries, but also have had a very serious effect on our economic well-being and stability.

There is only so much unemployment we can afford to give to Brazil and Mexico to allow them to reach a better economic condition. And enough unemployment in this country, of course, will make us unable to really fufill our obligations at all.

So it seems to me that unless we take a look at our own economic well-being and assure that we do have a reasonable state of full employment and full production, we are not going to be able to carry out our obligations to those countries.

If those countries are not aware of that, I think we have to make them aware of it.

Mr. GALVIN. I have at least two comments to make, sir. First, on the positive side, meaning an effort to promote the American interest, and I believe also assist the lesser developed nations such as Brazil and/or Mexico, I believe that the authorities of our country must do a more persuasive job of causing that there will be not only an intellectual acceptance, but maybe a degree of push in the direction of creating a better environment for foreign investment in their countries, so that there is a greater willingness on the part of American investors to risk the investment in those countries. American investment and other nonlocal investment for Brazil or Mexico can help both of those countries out of some degree of the difficulties that they are in. And the hospitality for investment in Brazil, in particular, and to a lesser degree in Mexico, is not as hospitable as it could be in order to help investment which causes jobs, which would help them out of some degree of these problems.

Now it may appear that when I make my second point, there is an incongruity to that. But I do not really believe there is. The second point that I make is that in dealing with Brazil and Mexico and other countries, I think we have to deal with the issue of increment, the increment to which a lesser developed nation can have a major distortive effect on world trade versus the real effect of a major distortive effect when a country like Japan moves into a very vigorous effect to capture a large section of a marketplace.

I am in favor of the general system of preferences and this, in spite of the fact that our company, and we are not alone, is the victim of the effect of the general system of preferences. I will not recite the precise company or product, but a significant product of our company on which we were a leader at one point in recent history became a product that could be sourced from Brazil by a customer of ours. And as a function of the subsidies given by this customer of ours who could have the product produced in Brazil and brought back into the United States, it was no longer possible for us to be economically competitive.

The subsidies essentially made the product almost cost-free in coming into the United States.

We went out of a business, one of our early businesses of our company. No longer have sales revenue. No longer have a factory. No longer have jobs in that particular business.

But we are not crying about that. There apparently has to be some give and take. It is a zero-sum game, to a degree, and in some instances, the American investor, the American employee, the American company, apparently has to be the victim of what will be the consequences of the general system of preferences.

I encourage we retain that, in spite of the fact that it is a stiff penalty in some instances. We just plain cannot give up the chance of giving these people the chance to find their place in the modern world.

So I say, incrementally, we have got to interpret things more easy going with the Brazils of the world if they will reciprocally, and I don't mean reciprocity in the sense of legislation here now, sir, but from a basis of principle, if they will reciprocally start to give a long-term, consistent, viable environment for investment.

Let us go there not to use the advantages of their subsidies, but to go there to create markets there and to do some exporting from their countries as well.

Senator **Bentsen**. Well, each of you has been pointing out some of the serious dangers of targeting and what it means in the way of loss of jobs. You are also talking about some changes in the trade laws to try to meet that kind of a problem. But there are a lot of people in and out of business who would allege that such changes are protectionism, and that such changes would result in a trade war. Then they bring up the specter of beggar-thy-neighbor policies and the problems of the Depression.

How would you answer that kind of a criticism?

Mr. **Galvin**. Well, I think it is a very comfortable ignoring of the proposition that the condition that we are in as far as the industries that I know more about, the high technology industries and particularly the electronics industry, is a condition that we inherit. We are the victim of the protectionism. It is the reason why I made an emphatic statement along that line in my opening statement, is that we are not willing to at least articulate and none of those that we have to compete against in the world are willing to acknowledge that the condition that we are in is very much a function of the fact that the other's competence was earned through protectionism. We never got a chance to compete in Japan in the marketplaces in which they are now very successful. We could not sell hardly any telecommunications products in Japan until this decade, the decade of the 1980's. It was not allowed. And we could not invest in Japan until the middle 1970's.

My God, the industry was already 25 years old.

So, the issue was drawn by the protectionism of others. And what we must find now is some manner of countervailing phenomena in order to bring things back into balance. And everybody in the industries that I am associated with are very willing to play games, to play the game, with the Japanese or the other advanced developing nations on a nonmarket distortion basis. But we must have some recognition of the fact that the problems of protectionism there, and most particularly, in Japan, must first be overcome.

Senator **Bentsen**. Mr. Samuel, you are here as a representative of LICIT. But you are also president of the AFL-CIO's Industrial Union Division. Now you have members that are losing their jobs because of subsidized industries abroad. You are concerned about targeting. But, by the same token, you have a lot of members who are in export industries whose jobs depend on being able to continue those kinds of exports. And then you have the dangers of a trade war erupting that could cost some of those members jobs.

Now, is it the AFL-CIO's position that trade controls are an appropriate tool to neutralize foreign trade assistance? Would the AFL-CIO favor trade controls over other Federal actions, for example, industry subsidies, as a way to counter targeting abroad?

Mr. **Samuel**. I wonder, Mr. Vice Chairman, if those are really mutually exclusive. It seems to me, if I may expand a bit on Mr. Galvin's response to your last question, that the actions we are suggesting, I gather that the CITE group is going to suggest what LICIT has suggested already.

It seems to me that it is a distortion of the word to label them protectionism. One of the things we are suggesting is to raise our standards for section 201, the escape clause, to the level of article XIX of GATT. Our escape clause, section 201, is actually weaker than the GATT provision for safeguard action and it's more difficult to qualify—yes.

So that some of the other suggestions that we are making to make section 201 more effective, to make our countervailing duty sections more effective, I think bear not the slightest relationship to anything called protectionism. I think that those things have to be done.

In terms of possible subsidies of our industry, I discussed this a little bit before in my statement with regard to industrial policy, that I think in response to the targeting activities of other countries, we may, indeed, have to take some of the same kinds of actions—support for R&D, for capital investment, guaranteed loans, so forth and so on.

It seems hard to me to believe that there really is going to end up, that we are going to end up with a trade war. Those who suggest, for example, in connection with the local-content legislation which is pending in the House—this would simply arouse the Japanese to undertake the same kind of retaliation against us—obviously are unaware the Japanese already have local-content legislation and are already using it.

For example, the F–15, which we would like to sell to the Japanese, we can only sell in part. It has to be made partly, I think 40 percent of it has to be made in Japan. I guess they could retaliate by making us make 60 percent in Japan. The fact is that they have local content and so do more than 30 other countries.

So that most of the things that we are suggesting here are already being actively indulged in by our trading partners and it is hard to figure out where they will get the ammunition for a trade war.

Senator **Bentsen**. If I recall correctly, you made some comment about Brazil and the desirability, from our viewpoint, of them reducing their local content legislation. Is it the idea that having the same laws here helps in that type of negotiation?

Mr. **Samuel**. And that we should try to persuade those countries to reduce.

Senator **Bentsen**. Is that part of your argument in favor of local content here?

Mr. **Samuel**. Certainly, we would prefer a system of fair trade which conforms to the basic principles of GATT. We are not getting closer to that; we are getting farther away. The various negotiations since World War II have achieved a substantial reduction in tariffs. They have been replaced, as you well know, Mr. Vice Chairman, by a substantial increase in nontariff barriers, and that is what we are facing.

And it seems to me since the 1979 negotiations have not achieved, unfortunately, the kind of reduction in nontariff barriers that we need, that we have to take other steps. And at the moment, it appears to be the only steps that we can take are unilateral ones, particularly after the failure of the GATT ministers conference last fall.

There is no other course for us to take unless we are going to accept a system which imposes on us dislocation, disruption, and unemployment.

And I can tell you that as far as the unions that are associated with IUD, we are not prepared to accept that.

Senator BENTSEN. Let me turn to another subject—the question of the authority of the President. The President does have substantial authority and autonomy in trade matters. For example, even when economic damage is shown to be caused by a foreign trade practice, he has the authority not to impose a countervailing duty if he feels that international considerations overweighs the damaging trade practice abroad.

Is it the position of either one of you that that kind of an authority should have some additional limitations put on it?

Mr. GALVIN. I concur, sir, with the implied answer to your question that, yes, I think there has to be greater predictability as to what the President's acts or what the action of an administration will be with regard to trade laws. I think we have too great a flexibility in this regard, whatever the administration, and that the laws that you entertain should circumscribe to a greater degree what the criteria and the action to derive from that policy—after all, all a policy is, is an answer to a predetermined set of conditions. And if you define what the predetermined set of conditions are and set the policy in law, the President, or whoever is the one who is authorized, should be obliged to act accordingly.

And I would like to integrate that statement, sir, to the last statement and question by Mr. Samuel. I concur with essentially all that he said.

It is essential that you do something in the way of making more specific and stronger the laws of our country because it integrates into the accomplishability of accessibility to the other marketplaces, and, most particularly, the Japanese. The Japanese do not act as a function of negotiation; they only act as a function of pressure. And pressure comes from power, and power comes from legislation, and the legislation must be specific enough to where they understand there will be a consequence if they do not act.

And the only reason that we are beginning to get access to the Japanese marketplace in the last few years, the Japanese are finally beginning to believe that maybe there will be some penalties. I think that you people can do a great deal for us by specifying that there shall be penalties and there are criteria against which the administration will have to act.

Senator BENTSEN. Well, we used to have something called a congressional veto that allowed us to go back and check on those things. [Laughter.]

But that is not the case anymore. So I guess we are going to have to get more specific.

Mr. Samuel, would you care to comment any further on that?

Mr. SAMUEL. I would like to associate myself with the comments of Mr. Galvin.

Senator BENTSEN. All right. Now since 1980, LICIT has issued three excellent reports and some additional testimony on trade matters. For example, in June, you testified before the House Banking Committee and noted that we now import 1 item for every 5 that we produce here at home, compared with only 1 in 20 in 1960.

That goes a long way toward explaining our $43 billion trade deficit today. But in that testimony, in your testimony today, and in your report of April on targeting, I think there is implied support for industrial planning by the Government for U.S. industries facing targeting abroad—more support than I detect from Mr. Galvin's remarks.

If the Government offers subsidies for industrial renovation—if we impose certain nontariff barriers or tariffs—is it appropriate to tie certain strings on U.S. industry demanding certain investment as a quid pro quo—require that they do things to modernize and be more competitive?

Mr. SAMUEL. Yes, sir. The LICIT statement does suggest that if activities are undertaken which bring some kind of benefit to American industry, that assurances have to be given that American industry will respond and use those benefits in a way which achieves the agreed upon goals, that there is not in industrial policy as in anything else, a free lunch. And certainly there has to be an unequivocal response by American industry if they are given the kind of help which they may need to be able to compete effectively in the world market.

Senator BENTSEN. Mr. Galvin, would you care to comment on that?

Mr. GALVIN. I am of the mind, sir, that an "industrial policy" that includes within its meaning national planning and selection, that therein is sown the seeds for a weakening of our industrial power and therefore, I do not countenance such a policy for our country. And I would very strongly advise that that not be included in the legislative declaration.

Senator BENTSEN. You both listened to Ambassador Brock and heard him say that we have three sets of negotiations taking place right now with the Japanese, one on the machine tools industry, the other on semiconductors, and a third on industrial targeting, generally. In addition, they have an interagency task force working on the targeting issue.

Do you feel that the administration is moving in the right direction on targeting? Should it be raising the issue of targeting in the context of the GATT agreement with other nations like France?

Mr. SAMUEL. Yes. I think the administration is moving in the right direction, but so slowly and haltingly, that I am not sure that it is going to be effective. I think the political pressures are such that the administration cannot resist taking some steps, but I am not convinced that they are doing anything more than the absolute minimum. I have no particular confidence that the negotiations with Japan are going to be particularly productive.

I was in the administration, in the Government the last administration and was part of several negotiations with Japan, in 1977, 1978, and 1979, and those were not the first. It seems to me that we are just seeing the same movie over and over again, that until more specific steps are taken, probably through legislation, as Mr. Galvin said before, the Japanese are not going to take it very seriously.

However, I do want to make it clear that I applaud what the administration is doing. I only wish that they were doing more.

Mr. Galvin. I would like to compliment both administrations, the Carter administration and the Reagan administration, for beginning to step up to this situation. I think that the organization under Bob Strauss and the associated resources thereon took not just a basic responsibility to work the multinational trade negotiations, but they took many particular parts of this problem on in 1977, 1978, and 1979 and tried to start breaking down some barriers. I think that has been followed up very well by some very competent people in this administration.

But I think what we are seeing is a reaction to a situation which I hope your legislation will prevent occurring again. There was not a monitoring. There was not a serious attention to this situation. There was an intellectual awareness, but not a visceral dedication to dealing with the issue and clearly not a well understood consequence and effect.

Now if your legislation, sir, will, among other things, include that the U.S. Government is going to take very serious cognizance of this—I will call it monitoring—and that it will look at criteria and will adapt some language out of the GATT, or laws relating thereto, look for the nullification and impairment of the effect of the GATT, and when it starts to sense that this can occur, then start into the negotiating process and be as tough as Bob Strauss was and be as competent as the people in this administration are, I think we can maybe ward off some of these things on future occasions, whenever the next high technology industry comes along.

But we cannot do it if we are always going to be reactive and always planning to get around to doing something when we say, well, enough is enough. To me, the first time the competitor takes an action that puts us at risk of nullifying and impairing the effect of the GATT is when we should step forth and say, stop it, and we will do some things if you do not revise your policies. And then we will start to keep things neutral.

We will not have to have any protectionism as a result of that if, among other things, you would include that directive in your legislation.

Senator Bentsen. Mr. Galvin, you have laid out what I think is a realistic plan to improve the Nation's environment for investment in research. And then you go on to talk about trying to increase the effort in exports, really push our products.

One of the things you talk about is the Export-Import Bank. What was done to subsidize agricultural products in the sale of wheat flour to Egypt was an expensive process. If you get into the Export-Import Bank, we are talking about preferential interest rates.

How much money are you talking about, Mr. Galvin, for the Export-Import Bank? What is the magnitude of what we ought to do there?

Mr. Galvin. I am sorry, sir, but I am not expert enough to recite a number and I would be pleased to return with a paper response to give some intelligent answer to that question. But as a matter of basic principle, except for the fact that a current policy seems to deserve the adding to our export financing program as a countervailing to the extreme efforts of certain of our foreign competitors, I would hope that if we got back to a neutral ground someplace and we are all just dealing in legitimate, normal financing terms for the marketplace, I would hope that we would retire to a very much less aggressive Export-Import Bank requirement.

So, as a matter of principle, I would hope that we would only use this as a countervailing and temporary mechanism. But I will attempt to respond, sir, to your question in a more meaningful and mathematical way.

Senator BENTSEN. A year and a half ago, as I recall, when they were talking about cutting back some more on the Export-Import Bank, there was a group of salesmen in Mexico City trying to sell products in Mexico. When the information came back on the cutback in Export-Import Bank funding, the American salesman said, "Well, that's that," and closed his briefcase and started home.

So, I think it does have a role to fill and can do so.

Now, Mr. Galvin, you are wearing two hats—one as chairman of Motorola. Last November, the chairman of the Advanced Microdevices said that Japan has spent four times what the U.S. Government has spent on semiconductor R&D. It seems to have paid off because the Japanese have captured about 70 percent of the global market for 64K RAM chips, as I understand it.

Now your firm, along with Texas Instruments, are leaders in the semiconductor industry. I see that Western Electric has announced that they are going to begin shipping the new 256K RAM chip later this year, creating a whole, new battleground with Japan.

Have you all been able to gear up? Have U.S. companies been able to gear up despite the Japanese subsidies to fight a better battle this time in the 256K RAM market?

Are you going to be able to take them on and compete?

Mr. GALVIN. We are dedicated to taking them on, sir, and are making extensive—we, the industry, and certain companies in the industry—personal, risk-oriented forays into competing with the 256K RAM and, incidentally, continuing to do a very aggressive job of continuing our increased investments in and improvements in ability to serve the 64K RAM marketplace.

So, certain companies like ours are going to survive this particular competition. But I return, sir, to this very important historical point that I do not think can dare be passed over. Japanese executives who are quotable, who have been quoted, who are citable, and I can present all that information to your committee, if you wish, have, in effect, said, if we had not had protectionism and had not had the assistance of the collective efforts to proceed ahead to build our semiconductor industry, there is no way we could have ever got up on the learning curve and been a major competitor in the semiconductor industry.

So, they are the product of their protectionism, not just that they made investments in something. That all came in recent years. But it is the combination of protectionism, subsidies, and the collective effort that made them competitive as a system, where each individual, Texas Instruments, a constituent of yours, they pulled themselves up by their bootstraps. And so did our company, et cetera. And we were ready to compete with them in the 1950's and 1960's and 1970's, but we were not permitted to in a sufficient degree to give them a run for their money while they were in their formative stages.

So, yes, they are very good today in selected marketplaces where they have concentrated their energies and resources, and we are doing very well in that regard, too. But, boy, it is going to be hard for our industry in general to stand up to that. You have to be an awfully large and resourceful and well financed organization to stand up against the collective energies of that giant over there.

Senator **Bentsen**. Well, gentlemen, we have heard testimony that I think is going to be very helpful. I think we do see, from what Mr. Brock has said, and his previous testimony, some move in the direction of dealing with some of these targeting issues which concern us. At the same time, we should not wait for action until the point comes that we just cannot stand it any longer. Those jeopardized jobs are going to be gone. We ought to be reacting faster than that.

There seems to be a basic disagreement with the Trade Ambassador concerning the need for new laws, and I agree with the fact that we must revise them.

You gentlemen have been able to cite for us some of the conflicting objectives in trying to figure how we can resolve the targeting issue. You have helped clarify the understanding that unless we do deal with targeting practices abroad, it is going to mean a greater export of jobs abroad and it is going to mean that our trade imbalance will continue to soar—which is very damaging to the overall economy of our country.

I am most appreciative of your attendance and appreciate your testimony.

The subcommittee stands adjourned.

[Whereupon, at 12 noon, the subcommittee adjourned, subject to the call of the Chair.]

[The following statement was subsequently supplied for the record:]

Statement of
Carl J. Green
Wender Murase & White

on behalf of

Japan Machine Tool Builders' Association
Japan Metal Forming Machine Builders' Association
Japan Machinery Exporters' Association

This document has been filed by Wender Murase & White with the Department of Justice under provisions of 22 U.S.C. 611, et seq., as attorneys for the Japan Machine Tool Builders' Association, the Japan Metal Forming Machine Builders' Association, and the Japan Machinery Exporters' Association. Copies of the registration statement are available for public inspection in Department of Justice files. Registration does not indicate approval of the contents of this statement by the United States Government.

As attorneys for the Japan Machine Tool Builders' Association, the Japan Metal Forming Machine Builders' Association, and the Japan Machinery Exporters' Association, we appreciate the opportunity to submit this Statement concerning "foreign industrial targeting". We hope it will contribute to the Joint Committee's inquiry by offering some different perspectives on this important question.

The Japanese machine tool industry has figured prominently in discussions of targeting. Representatives of the National Machine Tool Builders' Association (U.S.) have claimed in recent months that the success of the Japanese machine tool industry is the result of government industrial policy or targeting practices that include such measures as government subsidies and R&D support as well as preferential financing and import protection. It is also alleged that the Japanese Government insulates the firms in its industry from competition through cartels. These claims have been advanced in the context of NMTBA's efforts to have the federal government impose restrictions on machine tool imports. But aside from their legal significance, the claims, if true, would have very serious implications for U.S. domestic policy. If the key to Japan's industrial success lay in government policies rather than in the private sector itself, we Americans would have to do a great deal of rethinking about our most basic economic and political tenets. It is of great importance, therefore, that these claims and allegations be given very careful scrutiny.

Before it embarked on its present campaign to achieve import protection, NMTBA offered a far more objective analysis of the reasons for the Japanese machine tool industry's competitive success. The report of the NMTBA's 1981 study mission to Japan concluded:

> In summary, the strong competition from the Japanese machine tool industry is primarily the result of the willingness of management to invest heavily in its future, market its products aggressively throughout the world, work doggedly toward long-term goals, and pay an unusual amount of attention to the training and motivation of its workforce.

It went on to state:

> In general, meeting the Japanese competition will require increased risk taking by American machine tool builders, coupled with foregoing short-term returns in favor of long-term objectives and actions.[1]

Unfortunately, rather than following this sound advice, a major part of the domestic machine tool industry has chosen instead to try to pass the costs of its inefficiencies on to the general public by petitioning for import restrictions.

In the course of our work on the machine tool industry, we and Malmgren, Inc., our economic consultants, have made a number of findings that we believe will be of interest to the Joint Committee. One such finding is that, contrary to popular belief, the U.S. Government spends vastly more money in R&D support and other subsidies benefiting the machine tool industry than does the Government of Japan. The information on which this conclusion is based, which we can only summarize in this statement, is set forth at length in comments we have submitted to the Department of Commerce in connection with its pending national security investigation of machine tool imports. The finding has considerable significance. It suggests not only that the technological progress of the Japanese industry has its source in something other than government support, but also that increased government support may not be the best answer to the problems of the U.S. industry. Indeed, as indicated below, it may be closer to the truth to say that, relative to their Japanese counterparts, U.S. firms rely too heavily on government R&D and not enough on their own efforts. It also suggests, on another plane, that efforts by some domestic interests to promote legislation to penalize foreign "targeting" could backfire if foreign governments follow suit and begin to total up U.S. Government R&D support for metalworking machine tools and related manufacturing technologies as well as for such industries as computer-telecommunications, aerospace, and agriculture.

## The Japanese Machine Tool Industry

The Japanese machine tool industry, like its American counterpart, consists of a large number of small firms. As of 1980, there were some 1,972 metal-cutting machine tool firms, of which only six had more than 1,000 employees. See Table 1.

The Houdaille petition[2] claimed that Japan's Ministry of International Trade and Industry (MITI) fostered a machine tool cartel by limiting the number of participating firms, dividing markets, and allocating products among them. Although the Houdaille Petition was rejected by the Executive Branch after a thorough investigation of its merits, the same claim has been

## TABLE 1

### JAPANESE METAL CUTTING MACHINE TOOL INDUSTRY
Number and Size of Firms and Share of Production
1980

| Number of Employees | Number of Firms | Percent of Firms | Percentage Share of Output |
|---|---|---|---|
| 1-19 | 1,593 | 80.8 | 6.2 |
| 20-49 | 192 | 9.7 | 8.1 |
| 50-99 | 83 | 4.2 | 9.6 |
| 100-299 | 74 | 3.8 | 24.8 |
| 300-999 | 24 | 1.2 | 13.9 |
| 1000 plus | 6 | 0.3 | 37.4 |
|  | 1,972 | 100.0 | 100.0 |

Source: MITI, *Industrial Census Report, 1980*.

echoed in the NMTBA petition to the Department of Commerce. This is again contrary to NMTBA's earlier finding that "MITI's aim is not to reduce competition among Japanese firms."[3] Clearly Japanese firms do compete vigorously among themselves as well as with the rest of the world. The number of Japanese firms producing NC machine tools, for example, more than doubled in the period 1968-1981. The percentage of output accounted for by companies outside of the top ten manufacturers approximately tripled in that period. Among the top five producers of NC machining centers in 1968, only one was still among the top five in 1981. The top producer of this equipment in Japan today was not even among the top ten manufacturers in 1975.[4]

These data are hardly typical of a cartel! What they demonstrate in striking fashion is the ease of entry, fluidity, and high degree of competition that characterize the Japanese machine tool industry.

Where the Japanese machine tool industry differs most strikingly from its American counterpart is in the speed with which it has adopted new technologies and advanced worker productivity. Output per worker in Japan's metal-cutting industry soared in current dollars from approximately $19,000 in 1975 to approximately $114,000 in 1981, declining to $92,000 in 1982. See Table 2. In contrast, the American industry has been far more sluggish in its investment in capacity and productivity enhancement, preferring generally to allow order backlogs to lengthen in times of high demand. This is reflected in much lower worker productivity

## TABLE 2

### JAPANESE METAL CUTTING MACHINE TOOL INDUSTRY
### PRODUCTION, EMPLOYMENT, AND CAPITAL SPENDING
### SELECTED YEARS
### 1960-1982

| Year | Production* | Capital Spending* | Capital Spending as a Percent of Production | Employment | Value of Production Per Employee |
|---|---|---|---|---|---|
| 1960 | 125 | 16 | 12.80 | na | -- |
| 1965 | 195 | 8 | 4.10 | 35,631 | 5,473 |
| 1970 | 868 | 70 | 8.06 | 49,161 | 17,656 |
| 1975 | 777 | 16 | 2.05 | 40,925 | 18,986 |
| 1976 | 771 | 13 | 1.69 | 34,509 | 22,342 |
| 1977 | 1,165 | 18 | 1.54 | 32,168 | 36,216 |
| 1978 | 1,737 | 25 | 1.44 | 28,154 | 61,696 |
| 1979 | 2,210 | 48 | 2.17 | 31,113 | 71,031 |
| 1980 | 3,008 | 87 | 2.89 | 33,737 | 89,160 |
| 1981 | 3,861 | 129 | 3.34 | 33,883 | 113,950 |
| 1982 | 3,144 | 140 | 4.45 | 34,146 | 92,075 |

*U.S. dollars, in millions, converted at exchange rate in IMF, Monthly Statistics, by MITI.

Source: MITI, Current Production Statistics Survey; and JMTBA, Research Report of the Machine Tool Industry Operations.

figures in the domestic industry. The comparable figures, also in current dollars, show average sales per U.S. worker of approximately $28,000 in 1975, rising to $51,000 in 1981 and falling to $46,000 in 1982.[5]

The Role of Government Subsidies -- A Comparative View

What accounts for the impressive gains in technology and productivity made by the Japanese machine tool industry in recent years? Is it, as some have alleged, the result of subsidies provided by the government or government-controlled organizations? The answer is clearly and demonstrably in the negative.

The Japanese Government does not pay subsidies to the firms in its machine tool industry. While some basic research relating to machine tools does take place in the government's Mechanical Engineering Laboratory, the budget of that institution for research relating to the machinery industry as a whole is approximately $12 million annually. The machinery industry, it should be noted, accounts for approximately one-third of Japan's total manufacturing production; the machine tool industry, in contrast, accounts for less than two percent of the output of the machinery industry. The portion of the Mechnical Engineering Laboratory's budget allocable to research relating to machine tools was a mere 77 million yen, or $320,000, for 1983. We stress the difference between the machinery industry and the machine tool industry because in the Houdaille and NMTBA petitions, the distinction is often blurred.

For example, the Houdaille petition made some vastly inflated claims about grants to the machine tool industry out of the proceeds of government-controlled bicycle and motorcycle race wagering. In contrast to those claims, which ranged as high as "billions of dollars" annually, the actual sums, as we documented on the record of the Houdaille investigation, have amounted to less than $500,000 a year for at least the last five years.6 These funds were used to print brochures, gather statistics, translate articles, and hold trade shows -- functions similar to those performed for American businesses by the Department of Commerce's Foreign Commercial Service.

The very low level of government support to the machine tool industry is consistent with the pattern in other manufacturing industries. The contrast between the situation in Japan and that in the United States is striking. First, of course, the scale is vastly different. The U.S. spends more on R&D than France, West Germany and Japan combined.[7] The government share of total R&D expenditures is about 50% in the United States as compared to about 26% in Japan.[8] An important fact is that while the United States Government funds half of U.S. R&D, it conducts a relatively small portion of the R&D activities it pays for. In fact, the U.S. Government funds some 35% of the R&D conducted by U.S. business firms.[9] This represents a very large net transfer of resources from government to the private sector. In Japan, no comparable transfer of resources takes place. Japanese private companies fund nearly three-quarters of all R&D activities and they conduct about three-quarters of all R&D activities. Less than 2% of R&D undertaken by Japanese companies is government funded.[10]

The success of Japanese firms in the development and implementation of technology may be significantly related to this pattern. The fact that Japanese private businesses fund their own R&D, rather than relying on government money, may help account for the effectiveness of those activities in new product development and productivity enhancement. It also, of course, helps to explain why the mix of overall Japanese R&D funding has tended to be heavier on the development than on the research side. In the U.S. in contrast, government-funded programs often push forward the frontiers of technology, but U.S. private firms have been slow to make the additional expenditures necessary to implement and commercialize new technologies.

## Research and National Security

While U.S. Government R&D expenditures involve very large transfers of resources to the private sector, the point is often made that a large part of these expenditures are made by the Department of Defense for reasons related to national security rather than for commercial purposes. The point is undoubtedly true. DOD traditionally has accounted for approximately one-half of all U.S. Government R&D expenditures, a share which has been rising somewhat in the past two years, and the purposes or motives of DOD's expenditures are unquestionably related to the national security. Nevertheless, some observations on the consequences of those expenditures are in order.

First, as is true for government-funded R&D generally, DOD's R&D funding is provided in large part to the private sector firms that constitute the bulk of what is often called the "defense industrial base." As a Defense Department spokesman put it: "Far too few Americans are aware that the national security foundation of the U.S. can be traced directly to capabilities and responsiveness of the civilian industrial base.... Most defense systems are not produced in a captive Government-owned industrial base. On the contrary, they are produced in the civilian sector."[11]

A second factor of importance is that in many areas there is growing convergence between defense and commercial research. For example, the Department of Defense has been placing considerable research emphasis on new, man-made, lighter material in order to increase payloads of weapons carriers, allow for increased weight of electronics and weapons aboard ships, and shield space vehicles and missiles. These materials and new methods of working them are of great and immediate commercial interest to automobile and commercial aircraft manufacturers. Thus the benefits of new developments in such areas are likely to be shared by military as well as civilian end-users.[12]

While the motives for DOD R&D programs are doubtless based on national security considerations, the relationship between national security and industrial strength does not go unnoticed, even in the Pentagon. For example, Lt. Gen. Lawrence A.

Skantze, in describing the Air Force's Manufacturing Technology Program, stated:

> We feel we're doing work both necessary and urgent. Our nation remains threatened ... both militarily and economically. We cannot afford not to modernize. Without industrial modernization we will be increasingly vulnerable to foreign economic domination.[13]

This suggests a somewhat broader national security mission than the public generally associates with the Pentagon. But there is no question that the close link between national security and civilian industry is perceived by policymakers on both banks of the Potomac.

It is worth noting that DOD's Manufacturing Technology Program is credited with the initial development of numerically controlled machine tool technology as well as with the bulk purchase arrangements that reduced the risks to U.S. firms of the early implementation of that technology. In recent years, ManTech has shifted its focus to areas at the leading edge of manufacturing technology innovation, including CAD/CAM systems, robotics, and flexible manufacturing systems. Over the five year period 1977-1981, DOD invested about $745 million in ManTech. Over the current five year period, DOD expects to spend $1.6 billion on ManTech programs. Brigadier General Bernard Weiss, who oversees the Air Force component of the program, referred to ManTech, in an evocative phrase, as "the U.S. equivalent of MITI."[14]

In addition to the ManTech program, which is funded from procurement budgets, DOD research budgets fund other work in the manufacturing technology area. Moreover, NASA, the National Bureau of Standards' Center for Manufacturing Engineering, and the programs of the National Science Foundation also contribute significantly to research on manufacturing technology. Together these add up to a very substantial set of government activities to push forward the technology of NC machine tools and related industries having both defense and civilian applications.

## Patent Policy

In addressing the issue of targeting it is important to note the relevance of recent changes in U.S. Government patent policy. Rather than belonging to the public, or being "generally available," as that term is used in the context of the countervailing duty law, patents developed under government grants or contracts, such as those connected with the programs described above, now belong to the contracting companies. Accordingly, the vast sums expended by the U.S. Government through private sector grants and contracts for industrial R&D directly benefit specific U.S. firms and industries.

United States Government patent policy is embodied in the Bayh-Dole Act, 35 U.S.C. §200 et seq. Originally limited in its application to small businesses and non-profit organizations, the Act has been extended by presidential memorandum to all entities engaged in government-funded research.[15] As expanded by the President's memorandum, the law provides that inventing organizations may elect to retain title to government-funded inventions. Another provision of the law states that unless a specific government waiver is obtained, the right to sell or use any government-financed invention in the United States may be licensed only to firms "manufacturing substantially in the United States." In explaining the new policy, President Reagan's memorandum states, "Experience has shown that, in most instances, allowing inventing organizations to retain title to inventions made with Federal support is the best incentive to obtain the risk capital necessary to develop technological innovations". The new policy goes far to ensure that Federal programs concerned with science, national security, and other public purposes will have direct commercial payoffs for participating U.S. firms.

Supplementing the new government patent policy are the provisions of the Stevenson-Wydler Act, 15 U.S.C. §3701 et seq., which was enacted by the 96th Congress on the basis of findings that technology and industrial innovation would, inter alia, offer "enhanced competitiveness of United States products in world markets" and "reduce trade deficits". The Act authorizes establishment of government units to study and stimulate technological development, establishment of centers for industrial technology, and various other measures to encourage both the development and the diffusion of technology. Pursuant to the Act, Secretary Baldridge earlier this year announced an industrial technology partnership program to promote large private sector R&D programs to compete with "foreign 'targeted industry' consortia."

In his address to the Commonwealth Club of San Francisco on March 14, 1983, President Reagan indicated that further steps are on the way:

> To retain America's technological edge...and to revive our leadership in manufacturing, we've implemented a research and development policy to enhance the competitiveness of U.S. industry in the world economy.

He further suggested that tax incentives, antitrust exemptions and other methods will be used to implement the policy. While such a policy will doubtless contribute to the strengthening of U.S. industry - a goal shared by the United States and its allies - it should be noted that its adoption would appear inconsistent with the criticism we have been hearing of targeting practices by other countries. It also suggests that the adoption of anti-targeting measures could, if other countries follow suit, work to the detriment of U.S. export interests, particularly in high technology industries.

## Tax Subsidies for R&D

Another method of subsidizing private sector R&D is through tax benefits. In this respect, as well, the difference between Japanese and U.S. policies is striking: tax credits and deductions for industry are much more generous in the United States than in Japan.

The findings of the National Machine Tool Builders' Association Study Mission to Japan are on point: "We found to our surprise that Japan's machine tool industry is investing and modernizing without special tax credits or incentives,"[16] and, further, "After studying the Japanese tax laws we learned that investment incentives are no more liberal in Japan than in the

USA."[17] These findings were made in September, 1981 and did not take into account the additional tax advantages provided to U.S. industry by the Economic Recovery Tax Act of 1981. Among other incentives, ERTA added a new credit equivalent to 25% of the net increase in a taxpayer's R&D expenditures over a three year base period. The National Science Foundation estimates that this provision will cost the Treasury $2 billion annually in lost revenue.[18]

Japan, too, provides a credit in the amount of 20% for increased research and development expenditures. But the Ministry of Finance estimates that the Japanese research and development tax credit results in a tax expenditure of no more than $140 million annually.[19] The one specific Japanese tax benefit related to machine tools has recently expired. Under that provision, the user of a new computerized machine tool was eligible for a bonus 10% depreciation allowance for the first year the machine tool was in operation, an allowance which provided for a limited tax deferral. Because this depreciation allowance was user-based, discriminating in favor of machine tools in general, it did not favor Japanese machine tools in preference to U.S.-built machine tools.

Another form of assistance which, it is often claimed, the Japanese Government provides its manufacturing industries is preferential loans. But on this question too, there is much exaggeration as well as considerable confusion. With an abundance of capital and low interest rates, government allocation of credit or interest rate subsidies have not had very much importance in Japan for many years. More specifically with regard to the machine tool industry, the only government-supported below market loans made in recent years have been those of the Japan Development Bank and the Small Business Finance Corporation. The JDB made a total of three loans to firms in the machine tool industry between 1977 and 1981, aggregating $1.5 billion yen (approximately $6 million) at interest rate savings averaging 0.8% under prime. The SBFC made nine loans to firms in the industry in the years 1979-1981 for an aggregate total of 945 million yen, or $3.8 million, at interest rate savings of between 0.6% and 1.3% under prime. Since the only subsidy element in such loans is measurable by the principal amount times the discount under prime, it is obvious that these few loans provided no more than de minimis benefits.

## Import Protection

In 1982, the import share-weighted average level of tariff on industrial and mining products in Japan was lower than for the United States and for all the members of the EEC.[20] What is true for industrial and mining products generally is true specifically for machine tools. The import-share weighted average tariff on machine tools coming into Japan at 5.8% was less than the 7.6% import-share weighted average tariff on machine tools coming into the United States.[21] Since April 1, 1983, Japanese tariffs on machine tools have been reduced to zero.[22]

The situation for import quotas is much the same as for tariffs. Japan maintains fewer import quotas on industrial products than does the United States. Indeed, if all major non-tariff barriers on manufacturing products are considered, only 7% of the Japanese domestic manufactured goods market in the late 1970s and early 1980s has been protected by such barriers whereas 34% of U.S. manufactured goods markets, 32% for France and 34% for Canada have been protected.[23] Japan does not maintain quotas or other quantity restrictions on machine tool imports.[24] Nor have Japanese technical standards been applied in such a fashion as to discriminate against imported machine tools.[25]

In regard to buy-national laws and policies, the comparison between Japan and this country shows that the United States provides substantially greater protection. The Department of Commerce's Country Market Survey on the machine tool industry in Japan reports that there are no "Buy National" restrictions limiting markets to domestic manufacturers.[26] Japan has subscribed to the Agreement on Government Procurement negotiated in the Tokyo Round without any exceptions affecting machine tools.

In contrast, the United States Government has excepted Department of Defense and Federal Emergency Management Agency procurements of most categories of machine tools from the Government Procurement code. Accordingly, Department of Defense procurement of machine tools for the Machine Tool Reserve under the Defense Industrial Reserve Act of 1973 and orders placed by the Federal Emergency Management Agency under the $1.5 billion Machine Tool Trigger Order Program are subject to Buy America Act restrictions. This results in a substantial import-protected market for U.S. machine tool manufacturers.

## Conclusion

Much of the recent debate concerning targeting seems to be between those who wish to penalize alleged foreign targeting practices and those who wish to replicate them here. But both sides of the debate appear to be missing the mark. The facts reviewed above strongly suggest that the National Machine Tool Builders' Association report of its study mission to Japan was right in locating the sources of the Japanese machine tool industry's success in strong and aggressive private sector initiative rather than in government policies. It is a point that should be reassuring to those who believe that competitive free enterprise is, in fact, more efficient than a cartelized, subsidized, bureaucratically-controlled economy. It is, in any event, a point well worth pondering as the Joint Committee considers what U.S. industries need to recover their technological strength and competitiveness.

## FOOTNOTES

1. National Machine Tool Builders' Association, *Meeting the Japanese Challenge*, 6 (1981).

2. 47 Fed. Reg. 20,411 (1983), modified, 47 Fed. Reg. 26,490 (1982). The Houdaille Petition was rejected in its entirety. U.S.T.R. Press Release, April 22, 1983.

3. Note 1 *supra* at Appendix D, 4.

4. Letters, dated Oct. 7, 1982 and Dec. 13, 1982, from Wender Murase & White to Jeanne S. Archibald. These letters are in the public record of the Houdaille investigation.

5. Computed by Malmgren, Inc. from NMTBA data. See Wender Murase & White, *Comments* on Department of Commerce Investigation of Imports of Metal-Cutting and Metal-Forming Machine Tools Under Section 232 of the Trade Expansion Act of 1962, June 27, 1983, at 105.

6. Letter, dated August 31, 1982, from Wender Murase & White to Jeanne S. Archibald, Appendix D. The actual amounts as set forth therein were 105 million yen in 1978, 70 million yen in 1979, 107 million yen in 1980 and 71 million yen (less than $300,000) in 1981.

7. National Science Board, *Science Indicators 1980*, at 7 (1981).

8. Science and Technology Agency, *Annual Report on Science and Technology* (Tokyo, 1982).

9. National Science Board, *Science Indicators 1980*, at 218, Appendix Table 1-8.

10. *Id*.

11. *To Amend the Defense Production Act of 1950: Hearing Before the Subcomm. on Economic stabilization of the Senate Comm. on Banking, Finance, and Urban Affairs*, 97th Cong., 2d Sess. 21 (1982) (statement of William S. Long, Deputy Undersecretary of Defense).

12. See "Transporting the Pentagon Into the Future," The Washington Post, July 24, 1983, F1.

13. Manufacturing Technology Conf. (MTAG) Proceedings 13 (Phoenix) (Oct. 17-21, 1982).

14. *Id*. at 489.

15. Government Patent Policy, Memorandum from the President, 19 Weekly Comp. Pres. Doc. 252 (Feb. 21, 1983).

16. National Machine Tool Builders, Meeting the Japanese Challenge at 17.

17. Id. at 5.

18. Tax Report, Wall Street Journal, June 1, 1983, at 1.

19. Ministry of Finance, Outline of Current Special Tax Measures in 1982, at 188 (Tokyo, 1982).

20. Japanese Government Announcement, Second Round of Market Liberalization Measures (1982).

21. Id.; ITC, Tariff Schedules of the U.S. Annotated, Sched. 6, pt. 4, items 674.30, 674,32 674,35 (1983).

22. Japanese Government Announcement, Second Round of Market Liberalization Measures (1982).

23. W. Cline, "Reciprocity": A New Approach to World Trade Policy, 2 Policy Analyses in International Economics 10 (1982).

24. U.S. Trade Representative, Japanese Barriers to U.S. Trade and Recent Japanese Government Trade Initiatives 9-14 (Nov. 1982).

25. Gen. Accounting Office, Report by the Comptroller General, United States-Japan Trade: Issues and Problems 12 (1979).

26. Industry and Trade Administration, Dept. of Commerce, Market Survey--Machine Tools: Japan 3 (1979).

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